United States Circuit Court of Appeals

TENTH CIRCUIT.

No. 2550.

COLORADO INTERSTATE GAS COMPANY, a corporation, PETITIONER,

vs.

FEDERAL POWER COMMISSION; CITY AND COUNTY OF DENVER, COLORADO; PUBLIC SERVICE COMMISSION OF WYOMING; COLORADO-WYOMING GAS COMPANY; and CANADIAN RIVER GAS COMPANY, RESPONDENTS.

No. 2551.

CANADIAN RIVER GAS COMPANY, a corporation, PETITIONER,

vs.

FEDERAL POWER COMMISSION; CITY AND COUNTY OF DENVER, COLORADO; PUBLIC SERVICE COMMISSION OF WYOMING; COLORADO-WYOMING GAS COMPANY; PUBLIC SERVICE COMPANY OF COLORADO; and COLORADO INTERSTATE GAS COMPANY, RESPONDENTS.

ON PETITION TO REVIEW AND SET ASIDE ORDERS OF THE FEDERAL POWER COMMISSION.

FILED SEPTEMBER 9, 1942.

VOLUME 5—Pages 2401-3096

[Testimony of WITNESS LYON (Continued.)]

Q. The figures on Table 4 are contained in haec verba in Mr. Smith's exhibit?

A. I don't understand that.

Q. I see on Table 4, Exhibit 226, Total Operating Expenses, $1,090.305.56.

Mr. Smith's Exhibit 185, Schedule 3—I see on Line 3, Operating Expenses, $1,090,305.56. That is where you get it, isn't it?

A. I would have to check on that exhibit and see.

Q. I will show it to you.

A. That figure is reflected as you state, and it is likewise reflected in Column 2, Line 2, Schedule 7, Sheet 1 of 1 in Exhibit 185.

Q. All you have there is the detail rather than the ultimate. The ultimate is what I asked you about.

So with respect to the items under the heading of Depreciation, Depletion, Taxes and Non-recurring Expenses on Table 4 in your exhibit, those are all found, those same identical figures are found in Mr. Smith's Exhibit No. 185?

A. The source of the information in this exhibit has not been limited to that one exhibit but by the incorporation of figures from several exhibits which have been submitted by the accounting Examiners.

Q. Well, the figures on Table 4, the consolidated figures, only found in Exhibit 185. The other exhibits with respect to either the Canadian River Gas Company or the Colorado Interstate Gas Company—

A. That is correct, they are the detailed figures supporting the consolidated exhibit.

Q. The only place you find, the consolidated figures which you have used in any other exhibit is Exhibit No. 185?

A. Consolidated figures, that is correct.

Q. That is what you are using, ~~consolidated~~ figures on Table 4, isn't ~~that right~~. Aren't those consolidated?

A. That is correct.

Q. The same thing is true of all figures on Table 4, that first sheet, down through "Total Exploration and Development Costs"?

A. I believe so. I think you will find those figures on Table 4. It will be necessary to go to the individual reports, however, because I would not be certain of that.

Q. On the second sheet of Table 4 where you have Rent for Company Dwellings and Miscellaneous Gas Royalties, what is the source of those two? I couldn't find them and that is the reason I am asking you about them.

A. It will be noticed that the amount of operating expenses reported by Examiners of the Commission have been reduced in two instances. One is the treatment given to rents derived from gas plant in service in the form of income from dwellings occupied by employes which has been classified as a credit to or reduction from transmission expenses rather than as operating revenues.

The other is the crediting of a small amount of royalty received by the company by virtue of realization of the sale price of a lease to production expenses instead of to revenues.

These two adjustments of minor consequence have been made solely for the purpose of simplifying the presentation of this exhibit to make possible a direct comparison of the total costs of the companies with their gas service revenues.

Q. Did you make those yourself? That is, these two adjustments which you have just read about from your typed memorandum you have in front of you?

A. Yes.

Q. They are not found in any other exhibits than that?

A. The amounts are found in the accounting exhibits. I transferred them from revenues to a deduction from expenses.

Q. That is, they were included in the accounting exhibits as other revenues, I suppose, than revenues from the sale of gas. Can you tell me where they are?

A. They are operating revenues as I recall the title.

Q. Can you tell me where they are? I haven't been able to find them, Mr. Lyon.

A. You will find the amount of $256.69 on Schedule B-17, Sheet 2 of 2, Page 102 of the exhibit "Canadian River Gas Company Income Accounts and Supplemental Data, Including Examiner's Reclassifications and Adjustments"

Mr. Lange: What exhibit number is that?

The Witness: Exhibit No. 168.

Mr. Dougherty: Tell me that reference again. I don't have it. I didn't catch it when you read it.

The Witness: Will you read the answer back, Mr. Reporter?

(The record referred to was read by the reporter as set forth above.)

Mr. Dougherty: What about the other item there of company dwellings?

The Witness: On the same sheet the sum of the preceding figure of $8,126.12 plus $8,787 is found on Sheet 1 of 2, Schedule B-17, Page 71, Exhibit 140, entitled "Colorado Interstate Gas Company Income Accounts and Supplemental Data Including Examiner's Reclassifications and Adjustments" will equal the $16,913.12, the first amount on the second Page of Table 4 of this exhibit.

By Mr. Dougherty:

Q. What you have done in effect, then, Mr. Lyon, is instead of treating those items as miscellaneous income or income that was not connected with the sale of gas, is so treat them and credit them against these expenses?

A. I would state that in this way, that the amounts reflected in the accounting Examiner's exhibits for this minor royalty, together with the rents from company dwellings, have been deducted from the operating expenses of the company rather than treating them as operating revenues where they are properly classified, for the reason I have already given.

Q. They weren't classified as revenues from the sale of gas by Mr. McKinstry or by Mr. Early.

A. They are classified by them as a part of the total operating revenues.

Q. But not from the sale of gas. It is other miscellaneous income. Isn't that what they are included as?

A. The title on the royalties of $256.59 is "Miscellaneous Gas Revenues." The title on the other item is "Rent from Company Dwellings, Bunk Houses, Etc.", a part of the operating revenues.

Q. Now, turning to Table 5, Mr. Lyon, will you tell me in what manner you have segregated these specific dollar figures that are under the heading of cost in Column 2 from the figures which were given you by the other Examiners from their exhibits?

A. Suppose we take the first line of that table: "Operations—gas wells, labor, supplies and expenses." The Uniform System of Accounts of the Commission classifies the operations into a major functional division of gas production. For the purposes of this exhibit it was necessary to segregate the cost of production into three parts: cost of gas at the wellhead, shown on Table 5; cost of production system, gathering, shown on Table 6; and cost of residuals refining, shown on Table 7.

Accounting Exhibit 185, Page 9, which is Schedule No. 8, Sheet 1 of 4, shows gas wells, labor, Line 2, in the amount of $2,208.51 and supplies and expenses, Line 3, in amount $1,289.08. It likewise shows supervision, Line 1, amount $14,005.46 and other labor, $1,694.24, and supplies and expenses, Line 9, $5,576.60, and undistributed auto expenses, Line 12, amount $3,029.70.

In order to distribute the supervision, other labor, supplies and expenses and undistributed auto expenses to the correct accounts, there has been added to this gas wells, labor, $2,536.32 and to this supplies and expenses, $2,085.44.

The sum of the amounts on Line 2, $2,208.51, Line 3, $1,289.08, and these apportioned amounts, is the $8,118.35 reflected as the first item in Table 5.

Q. Well, your proportion of the supervision and undistributed auto expense was made on what basis between the production ending at the well mouth and the gathering?

A. Operation and supervision and other operation labor is reallocated on the basis of itemized labor in proportion to amounts thereof. Other production and gathering equipment is reallocated on the basis of itemized maintenance in proportion to the amounts thereof.

Q. That is, you took the actual correct dollars that you found in labor and supplies and then allocated your division as you found that ratio?

A. In the same proportion. That allocation was neces-

sary because of the fact that the accounts undistributed auto expense and supervision and other labor supplies and expenses must of necessity be distributed in order to allocate the whole cost of operations.

Q. There is no separations of the actual time or expense of those things as spent on gathering facilities and operations as distinguished from the well itself?

A. So far as I know that is correct. I have not audited the books but have taken the accounting reports as they were presented.

Q. Well, what is the reason for using the dollars involved in maintenance as a basis for allocating some of your expenses and using the dollars of labor supplies and expenses for other types of allocations?

A. Usually supervision labor would be allocated in proportion to direct labor, but the supervision is in proportion to the direct expenditures for the direct labor.

Q. That supervision has to do with maintenance, I suppose, as well, doesn't it?

A. No, that supervision which I have allocated is solely operation supervision. There is no segregation of labor from materials and supplies in the maintenance account and the supervision labor was distributed over the direct operation labor.

Q. Now, so far as you could, I suppose gas well royalties shown in Line 6 on Table 5 were actual as paid by the company?

A. They are the amounts reported in the accounting Examiners' exhibits and I have used them for that reason.

Q. I shouldn't limit myself to that because I understand you made no independent investigation of the figures having to do with the costs of operation of the company?

A. I have made no independent investigation of the accounting exhibits. I am familiar with the accounting exhibits and have used them as correct.

Q. You didn't go back of that to the company's books to make any investigation of your own?

A. No, I didn't.

Q. These exhibits as prepared by Examiners of the Federal Power Commission as being the figures that you should use in making your study embodied in Exhibit 226?

A. They were handed to me and I used them because I thought they were the figures that should be used.

Q. Why?

A. Because they are the reports of the Examiners of the Federal Power Commission and I believe they are competent to do that work.

Q. Why would you use those as against any other reports, because they are on your side?

A. No.

Mr. Lange: Well, I believe that isn't a fair statement.

Mr. Dougherty: Well, I think he is assuming something in that statement that he can't prove and I want to see if he can. He hasn't made any examination of anything else and he doesn't know whether they are right or not.

Q. Did you examine any other reports than these?

A. No other accounting reports.

Q. What other reports did you examine?

A. I have had some engineering compilations of gas volumes prepared by the engineers from the records of the company.

Q. You didn't examine any accounting reports by witnesses who testified on behalf of the company in this case?

A. Not for the purpose of preparing these exhibits.

Q. But even without examining them, you think they are not worthy of use?

A. I wouldn't pass on them without seeing them.

Q. Why didn't you think it was necessary to find out and see and look at them? They were available here in court.

A. I didn't feel it was necessary to examine all of the exhibits that have been presented in this case in order to prepare this exhibit.

Q. You were seeking to get all the facts, weren't you?

A. Yes.

Q. And you just decided in your own mind that the facts contained in the Federal Power Commission exhibits were the only facts worthy of consideration?

A. I think they are all the facts that I needed in order to compile this exhibit. I didn't go any further.

Q. Do you think they are any more worthy than any other facts put in other exhibits in this case?

A. I couldn't pass an opinion without investigating.

Q. Isn't this a fact, Mr. Lyon, that you were handed these

exhibits, or they were given to you upon your request as being the exhibits of the Federal Power Commission Examiners which they had put in, and you were to base your study entirely on those figures?

A. I had no instructions to that effect.

Q. Isn't that what happened? You didn't want to base them on any other figures, did you?

A. I could have based them on anything I cared to.

Q. But you didn't care to base them on anything else because you wanted to take the Federal Power Commission's side of this, didn't you?

A. I tried to determine as accurately as I could and I feel that the reports of the Examiners are corect.

Q. How do you know they are correct when you made no investigation of anything else or the books themselves?

A. I believe they are competent to do the work.

Q. I am not disputing that. How do you know the accounting officers of the company aren't competent?

A. I won't pass any opinion on their competency.

Q. You just started down the line this far and the first group of accounting exhibits you took were the Power Commission exhibits and you said, "I'm satisfied with those boys. They are competent. They are okay with me," and you say, "That's as far as I'll go, I'll take that."

A. I believe that statement is substantially correct. I feel that the exhibits are complete and are accurate for the purposes that I needed them.

Q. You do not sponsor them as being accurate based on your own work?

A. The accounting exhibits?

Q. Yes.

A. I do not sponsor them. I believe they are correct.

Q. You are accepting them as correct?

A. That's right.

Q. If it turns out that they are not correct, a lot of your computations are false, then?

A. Some of them may or may not affect this exhibit, depending upon the error.

Q. If there is an error in their depletion and accrued depreciation, that would have a very serious effect, wouldn't it, whether too high or too low?

A. Depending upon the degree of error, but any error

in those would result consequently in an error in this report.

Q. You would have to make all of the corrections that would be required in your report?

A. Correct.

Q. So your report on the basis of facts stands entirely on these other exhibits?

A. Correct. As I stated before, it is not the purpose of this exhibit to introduce any new information but depends on those exhibits for the source.

Q. What it amounts to is a compilation on the figures you found of what you call costs as represented by those figures in those accounting exhibits?

A. Yes.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Dougherty:

Q. Mr. Lyon, in just a general way, how did you make your distribution—

A. May I interrupt you just a second. Just before the recess I was making a statement and I wanted to supplement that by saying with the addition of the amount of return, the statement was as to the source of these figures and I wanted to indicate that the amount of the return in these exhibits are not reflected in the accountants' reports.

Q. As I understand that, you just took 6 per cent as an example to use as a figure and you are not pretending to testify as to the rate of return?

A. That is correct.

Q. You might have taken 5 or 4 or 7 or 8 per cent?

A. That is correct. And if the other amounts are considered, the effect of it would be very easy—can be very easily seen by referring to Table 4 (continued).

Mr. Lange: You mean if other rates of interest were applied?

The Witness: That is correct. By dividing the return

shown on that table in the amount of $1,020,966.59 by 6, you would have the amount for one per cent of return and the amount of return would be increased depending upon the chosen rate.

By Mr. Dougherty:

Q. Yes. Now, still referring to Table 5, you have made certain allocations on taxes. Now, with respect to advalorem taxes, are those direct taxes as reflected in the accounting exhibits which you use as your basis, or did you have to make some allocation?

A. The Accruals for advalorem taxes have been allocated to the functional divisions of each company upon the basis of the proportion of the net adjusted book costs of plant as of December 31, 1939. The advalorem taxes of the Canadian River Gas Company being especially related to the property of that company have been allocated on the basis of its plant and the advalorem taxes of the Colorado Interstate Gas Company being specially related to the property of that company have been allocated upon the basis of its plant.

Q. This statement from which you have read the various answers, is that something you have prepared as an explanatory guide as to the method you have used, or did somebody else prepare it for you?

A. I have some notes here having to do with this which saves going through my working papers.

Q. You didn't answer the question. Did you prepare it or did somebody else?

A. I prepared it solely.

Q. Then you have made direct application of the advalorem taxes wherever it was possible to do so; that is, where the accounting exhibit showed, for example, the advalorem taxes applied to certain property included in your gas well-head cost you would take those exact figures?

A. The accounting exhibits do not reflect the advalorem taxes by functional divisions of property.

Q. But you had to allocate them.

A. Of necessity.

Q. On what basis?

A. As I have stated, on the net adjusted book cost of the plant as at December 31, 1939.

Q. That is on a dollar basis—dollars as indicated in the book costs?

A. Yes, you may label it dollars or property.

Q. Now you speak of the net adjusted book cost. What is meant by that?

A. I believe those terms are used in the accountant's exhibits and they have been defined, I would believe, in those exhibits.

Q. Why did you take that rather than what they show as the original book costs of the property?

A. Because I believe that—you are speaking now of advalorem taxes?

Q. Well, I am speaking—you say you adjusted them on the basis of the net book cost of these property items.

A. Yes.

Q. Why did you take the net book cost instead of what we might call the gross book cost or the original cost as shown in those exhibits?

A. Because the net adjusted book cost gives effect to the property—gives effect to the property as it existed in 1939 more closely than the original cost.

Q. That is, you took the depreciation which the Examiners have accrued in their exhibits as representing the actual depreciation of the property?

A. You are now referring to what the Examiners have in their exhibits, or are you referring to the fact that I have used the net adjusted book cost as reflected in the Examiners' exhibits?

Q. Is the net adjusted book cost that you use arrived at by the Examiners?

A. Yes.

Q. Taking the original cost and then deducting what they have computed as the depreciation reserves against that property as of 1939?

A. I would like to check the wording of the accountants' exhibits. I believe that the terminology that they used—

Q. All you did is to go to the net book cost and take that?

A. That's right, as reflected in the accountants' exhibits.

Q. Is that reflected with respect to each item of property rather than as a gross amount?

A. I believe the net adjusted book cost is reflected by property accounts.

Q. My recollection, Mr. Lyon, was that in determining the depreciation as computed by the Examiners that it was in a lump sum and I did not understand that they had, for example, applied that particularly to gas well tangible costs or drilling and cleaning equipment, field measuring stations, and so forth.

A. That could be determined upon an inspection of the exhibit. I would be glad to check that and read the net adjusted book cost figures which I have used in this allocation.

Q. I wish you would, because I have never—I don't recall that in any of the exhibits either of Mr. Luttring or of Mr. Early that they have made an allocation or determination of the depreciation against each separate group of property. As I recall the exhibits, they were gross amounts.

Mr. Lange: Do you have Exhibit 176 there, Mr. Dougherty?

Mr. Dougherty: No, I don't. Is that where it is?

Q. Do you have any notation there as to the exhibit from which you got your net adjusted book costs for the purpose of making this allocation?

A. The numbers weren't assigned at the time these working papers were compiled. I can do that in just a minute if you will give me the number of the exhibit.

Q. I have been handed Exhibit No. 176 which is entitled "Annual and Accrued Depletion and Depreciation of Gas Plant Accounts and Examiner's Adjustments" by Kenneth L. Smith and Carl E. Luttring.

A. In Exhibit 176, Page 20, Schedule 2, Column 3, Line 29, the net book cost—production plant—in amount of $3,488,980.92 for leaseholds and gas well intangible costs plus gas well intangible costs on the same line in the next column in the amount of $615,536.01, plus $2,852.00 on the same line in Column 5—I'm sorry. Will you strike that? That is superfluous.

Q. Mr. Lyon, I don't care about your making a detailed computation. All I was interested in was the principle you followed.

A. The advalorem taxes for the Canadian River Gas Company have been distributed in accordance with the net adjusted book cost of the property.

Q. Now, your Federal income tax, was that distributed on a property basis?

A. Federal income tax?

Q. Yes.

A. The accruals for the Federal income taxes for both companies have been allocated uniformly to the operations of the several functional divisions on the basis of the proportion of the net adjusted book cost of gas plant in service in each functional division as at December 31, 1939. This procedure results in the allocation of this item uniformly upon the same basis as the return and does not consider the existing differences between costs of service and revenues. It is apparent in allocating this item of expense to those customers whose revenues are to remain undisturbed, the apportionment of income taxes should be based on net income derived, utilizing actual revenues rather than an apportionment distributed uniformly with a determined amount of return for income taxes being based on net income are due in proportion to the amount of net return earned measured by revenues collected rather than upon cost of service as set forth in this exhibit.

Upon determination of the income taxes appropriate for the year 1939 the allocation thereof would be in accordance with the net income which should have been enjoyed in the light of these determinations. It is also necessary to bear in mind that there are some deductions in determination of taxable income which are to be taken into consideration, such as in the payments which are to be distributed in accordance with the property rather than cost of service.

Q. What you have actually done, as I take it from the first part of the written statement which you just read, is to take the actual income tax paid and distribute it on a property basis.

A. If I change the word "paid," these are the taxes accrued applicable to the business for the year 1939. The payments are made, I understand, about March of the following year.

Q. That is an appropriate correction, but it was the actual income taxes accrued by the companies rather than any new computation that you made.

A. That is correct.

Q. Now, when you get through with your various alloca-

tions and allocations of the costs, as you call them, then you divide that by the total amount of gas produced from the wells and get this average cost per Mcf.?

A. I may make one amendment. That is not the total amount produced. It is the total amount produced available for sale. The gas produced and given to the lessors as a part of the consideration for the leasehold has been deducted so those costs are distributed uniformly over the Mcf. of gas produced available for sale at the wellhead.

Q. That is a very small amount?

A. That's correct.

Q. Now, while you have used the word "costs," in using that word you are not meaning to imply that these figures are represented on the books of Canadian River Gas Company or Colorado Interstate Gas Company in every instance, nor do they necessarily reflect the expenditures made by those companies?

A. They reflect the data presented in the accounting Examiners' reports.

Q. And to the extent that those Examiners' reports do not reflect the actual expenditures made or the actual expenses recorded on the company's books, so to the same extent your exhibit would not reflect either of those two things?

A. May I answer your question this way, and if it is satisfactory, that I think that the accountant's exhibit reflects the correct cost on the books. If they do not reflect the correct cost or if they do not reflect what is on the books of the company, then this is not the cost.

Q. You found in your examination of the accounting exhibits that certain adjustments had been made from the operating expenses and other items as reflected on the company's books?

A. The accountants have made a number of entries, some of them are called reclassification entries and those auditors' adjustments are naturally not reflected on the books at the time this examination was made by the accounting Examiners.

Q. And there is a difference in the amount of depletion and depreciation that the company's books accrue or that are accrued on the company's books and the amount that the Examiners have set up in their exhibits?

A. I would have to check that in detail to see.

Q. You made no examination to compare what the costs reflected on the company's books were and what difference, if any, there was between those and the costs as reflected in the accounting exhibits of the Federal Power Commission Examiners?

A. No, I have made no examination of the books. I believe that the auditors' adjustments are journal entries which are reflected in their exhibits.

A. All that I want to bring out is that in using the word "cost," you were using it as identifying the dollar figures of operating expenses, etc., as shown on the accounting exhibits?

A. That is correct.

Q. There are certain items of expenses and also certain items in the property accounts that were marked by the Examiners as being suspended for the further consideration of the Commission. How did you handle those? Did you just accept the treatment as there given or did you include them or exclude them, or what?

A. The amounts included in these exhibits are the adjusted amounts determined by the accounting Examiners and set forth in the exhibits and include amounts suspended subject to final disposition as may be directed by the Commission.

Q. Now, having gotten this average cost of gas at the wellhead, you applied that to the volume which various customers, shown on Table 1 of your exhibit, took during the year 1939?

A. Yes.

Q. Now, I take it that you gave no consideration to the question of load factor of the various deliveries of gas which Canadian River Gas Company makes; that is, as between deliveries made to Bivins for the Denver line, as we call it, and deliveries that are taken at the wellhead for the Amarillo Oil Company and deliveries that are made to the Fritch compressor station of Texoma Natural Gas Company.

A. No, no effect was given to load factor in this allocation.

Q. Are you cognizant of the fact that the load factor of deliveries made to Fritch for the Chicago line, that that load factor is 95 per cent or better?

A. I believe that the load factor of the deliveries to the Fritch station is a little higher than the load factor of the Denver line.

Q. Well, isn't it substantially higher? I gave you the figure of 95 per cent.

A. It sounds a little high to me This general system Denver line is around somewhere between 60 and 70 per cent.

Q. That's right, you are correct about that.

A. And the Chicago line during 1939 was a little higher than that. I don't know whether it approaches 95 per cent or not. That could be very easily checked from my record, if you care to have it.

Q. You have no independent recollection of what the load factor is?

A. I know generally it is in excess of that of the Denver line but I don't have the exact calculation. I can check it.

Q. But you gave no consideration to that fact in determining what the cost of the gas was as delivered to the Denver line and what it was as delivered to the Fritch station?

A. I have given considerable consideration, but I have given no effect.

Q. Well, in making your computations you eliminated it entirely?

A. I have given it no effect.

Q. No effect to it, and you treated all the gas that was produced from the wells as all being produced under the same circumstances without trying to make any classifications on the basis of maximum monthly or daily demand?

A I have found that the production plant to the wellhead of the Canadian River Gas Company provides the source of gas handled by these companies constituting a single plant producing gas from a common supply, namely, acreage owned and operated in the western part of the Teas Panhandle field.

This allocation consequently treats it as a single unit for the production of gas.

Q. Did you read the testimony or examine some of the exhibits in this case which show that there are certain wells that, if not all the time, substantially all the time deliver their gas into gathering lines that go over to the Fritch

station and others that deliver their gas to the gathering lines that go to Bivins station?

A. I am informed of that. That is not from the exhibits, however.

Q. Now, the poorer load factor that would exist in a demand on the field would require additional wells to supply the maximum demand of such load factor, would it not?

A. You mean as applied to the year 1939?

Q. That is, it is your understanding or your judgment that you need no more wells to supply a quantity of gas on the 60 per cent load factor than you do to supply that same quantity on a 100 per cent load factor?

A. Are you speaking generally?

Q. I am speaking under the circumstances under which this operates. You know there is a 25 per cent open flow limitation in Texas?

A. Yes, I so understand. That is a monthly limitation, I understand.

Q. Quite so, but you have given no consideration to monthly maximums, have you—or at least you have given no effect to them?

A. That is correct, no effect.

Q. Now, if the deliveries that go to Fritch are substantially the same quantities all year around and having in mind there is a monthly 25 per cent limitation on open flow, wouldn't it take a lesser amount of facilities to supply that than if the same annual quantities of gas were delivered and the load factor was 60 per cent?

A. You are asking me now a hypothetical question as to whether—

Q. Yes.

A. —the number of wells, and so forth and so on

Q. That's right.

A. There are too many factors involved there. You do not know what the open flow capacity of a well is until you drill it. The number of wells required would be dependent upon the open flow you secured.

Q. I am assuming you are not drilling any more wells than you need to supply the market. You have said in your previous statement that that load factor is an important thing to be considered in determining cost of service.

A. It is in transmitting facilities.

Q. You don't believe it is in field facilities?

A. No.

Q. You think that you can supply a poor load factor with no more wells than is required to supply the same annual quantities of gas with a 100 per cent load factor?

A. I am not able to relate a general statement to these particular properties for this reason, that a gas well is drilled to recover a volume of gas. It is not drilled for the purpose of providing capacity. It is drilled sometimes at a date earlier than it would otherwise be drilled in order to provide capacity in lieu of installing booster stations in the field, but you can increase your rates of withdrawal by installing your booster stations, so the question of capacity in production facilities is not of importance.

Q. You can't increase your rate of withdrawal over 25 per cent of the open flow, however, Mr. Lyon.

A. That's correct, but you always have considerable in excess of that as an operating situation.

Q. That is your assumption. Did you go to the field to make an examination to determine what the situation was?

A. You mean, have I determined that the open flows of this system are adequate to handle their peak loads? They are handling it.

Q. That's right. You don't know how much in excess of that?

A. I don't. The geologists will have something to say on that, if they haven't.

Q. You say that they aren't drilled to provide capacity to meet peak loads, is that your contention?

A. Solely. They aren't drilled solely to provide capacity; they are drilled to recover gas.

Q. Don't you have to recover gas many times to meet peak loads?

A. You have to recover it in advance or through wells drilled in advance of their ordinary drilling date in order to provide capacity if your facilities are so heavily loaded that you are taxing the production facilities to that extent.

Q. Many times, isn't it so, Mr. Lyon, that wells are needed by a gas production company purely to supply peak loads and that if their load factor were better they wouldn't need so many wells.

A. That would presuppose that the company had spent those sums in order to provide a capacity without regard to the volume that those wells would produce, and generally the wells are drilled for the purpose of increasing the recovery from that acreage.

If you have drilled wells so close together that it is your purpose to increase the flowing ability from that acreage rather than to recover the gas, I would say the field is overdeveloped.

Q. You don't recognize, then, any such necessity of drilling wells solely for the purpose of meeting peak demands of the customers? You are just considering it on a volume basis, namely, an annual volume basis and if you have got enough wells to meet that annual volume, that is all, then, you shouldn't use any additional wells that are used solely in the wintertime to meet peaks?

A. You are speaking generally of the Canadian River Gas Company?

Q. I am speaking in general first.

A. I would say generally it could happen in a field of extreme—I would say it could happen. I wouldn't give the exact conditions that you might drill a well for capacity. I think there are none of the Canadian River Gas Company of that character.

Q. As a matter of fact, there are many gas companies in the United States that have many wells that aren't brought into play except during peak times of demand, isn't that so?

A. Do you mean that the wells are turned off during periods of less than peak demand?

Q. Yes, all summer long, shut off, and not brought into the line until winter comes and peak demands come on.

A. I question the usefulness of that property, then.

Q. What would you do to meet your peak demands, then?

A. I would say they are very badly depreciated.

Q. You would turn your customers off when your peak days come, in operating your gas property?

A. No.

Q. Well, how would you meet it?

A. I would say that those wells—I repeat my same state-

ment that I would question the *used* and usefulness of those properties. They are badly depreciated.

Q. What other way can you supply the gas on peak demands than to have wells available from which you can take the gas?

A. Install booster stations and take additional supplies from the additional wells.

Q. Not if you have reached the extent to which you can take gas from those wells.

A. That is not the situation.

Q. Not if you are taking all of the gas you can out of your existing wells.

A. That is hypothetical.

Q. Well, let's take the Canadian River Gas Company. If at any single time the demand on that system would be more than the 25 per cent open flow would permit in any month, wouldn't they have to drill wells if the use of that well was to meet the peak demand one month a year? Where would they get the gas?

A. I don't believe they would drill a well for that capacity. I believe they would buy the gas. It is a question of economics.

Q. Suppose no gas was available?

A. That is again hypothetical.

Q. I think you are being just as hypothetical because I don't know how you are going to meet peak demands and that is what customers need on cold days, is gas.

A. Well, I can only repeat again the same point, that you drill wells to recover gas and that you drill them earlier than you would sometimes otherwise drill them in order to provide capacity today, that you can substitute for that for additional compressing facilities in the field and postpone the drilling of that well. If you drill that well today strictly for reasons of capacity without intent to recover a volume of gas from that to make that well an economically sound investment, then I question the prudence of the drilling of it.

Q. Of course, your booster station situation would apply only if you have not exceeded the amount of gas you can take from the wells under the existing limitations.

A. This peak, by the way, is a monthly peak, again.

Q. Oh, yes. Isn't that true, that your booster stations do you no good unles you can get the gas out of the wells?

A. That is correct.

Q. Well, at any rate, we are in agreement that you have given no effect to the poor load factor of the gas that goes to the Denver line in making this computation.

A. That is correct.

Q. Now, are you familiar with the fact that the contract under which the Canadian River Gas Company sells gas to the Colorado Interstate Gas Company gives a prior right to gas that goes into the Denver line over the sales that might be made for delivery at Fritch?

A. I am not sure that that is in that particular contract. I know that it is in the Chicago Natural Gas Pipeline contract.

Q. It is recognized?

A. That is correct.

Q. If the time ever comes when the available gas supplies are not sufficient to meet all markets of the Canadian River Gas Company that the deliveries to Fritch would have to be shut down prior to any shutting off of the deliveries to the Denver line?

A. That clause in that contract, if the condition were to take place, might be exercised. I don't know. That would be a matter to be decided at that time. You will notice that there are other clauses in the same contract that completely negate the effect of that.

Q. You are familiar with the fact that the Amarillo Gas Company for the gas which it takes in the field for its market south of the Canadian River property has the first right on all production of Canadian River?

A. That is a usual occurrence in developing a project of the magnitude of this production plant, that those obligations that have been incurred in the earlier development of the project must be cared for before the project can be taken care of.

Q. And you have given no effect to those various priorities as they exist with respect to the field in your determination?

A. I say, any question of priority of the Amarillo Oil Company is of no consequence.

Q. At the present time?

A. That's correct.

Q. And that is true with respect to Fritch at the same

time; that is, adequate gas is available to meet all the demands now?

A. And I will call your attention to an additional section, I believe No. 3, of that Natural Gas Pipeline Company of America contract that in effect prohibits the Canadian River Gas Company from disposing of more than 18,250,000 Mcf. per year in addition to the requirements of the Denver line, and the Amarillo contract in effect blocking those reserves for their future use.

Q. Well, that would be in addition to sales that have never been made yet, but that doesn't effect the prior right that the Denver line has.

A. I think my statement will stand. If you don't understand my statement I can clarify it further.

Q. That provision you just read recognizes still the prior right of the Denver line?

A. But it also recognizes the fact that in order to insure for itself a dependable supply of gas the Natural Gas Pipeline Company of America has required that the Canadian River not dispose of more than that volume of gas in excess of what it had contracted for. If the reserves of the company at the time of the negotiation of that contract were adequate for the life of the contract and leave 18,250,000, then that clause is of no consequence. The supply of gas to the Natural Gas Pipeline Company of America is as firm as any of the other supplies.

Q. That is so, but I say, it has no limitation on the amount of gas that goes into the Denver line.

A. No limitation except market requirements.

Q. Now, when you get your next compilation, I assume you have used the same principles in making your allocations and setting down your various items here on Table 6 as you have discussed with respect to Table 5?

A. Yes, the same principles and methods.

Q. Now, again, you have given no effect to the difference in maximum monthly demand which is made by the Denver line on the gathering system as compared with the maximum monthly demand which the Chicago gas line demands.

A. That is again on a uniform volumetric base.

Q. And given no effect to the fact that there is a different load factor between the Denver line and the Chicago line?

A. No effect.

Q. You just treated all the same gas, that is, all in a lump sum?

A. This is a gathering system for the purpose of delivering gas out of the common supply.

Q. You have made no attempt to specifically allocate any portion of the gathering system to the Chicago gas or the Denver line gas?

A. No effect.

Q. You haven't done it here. You have made no allocation?

A. I have made no allocation, segregation of the property specifically devoted to the service of either of those markets.

Q. Now, with respect to the residual refining which is gasoline plant expense, you have taken whatever net return there is from the Bivins gasoline plant and credited that against the gas that goes in there?

A. Into the Denver line, yes.

Q. Into the Denver line, and you have done the same thing with respect to the Chicago line gas?

A. Credited it to the cost of production of the gas that is delivered to the Fritch station.

Q. That amount that you have—the $18,508.69 in Line 53 on Table 1, that is the Canadian River's share, I take it, of the total results of operation of the Texoma gasoline plant?

A. Yes, that is the figure as reported in the accounting Examiner's report.

Q. Now, let me get to the question of transmission expense which you have set forth on Table 8. I take it you have assigned certain basic costs which you put under the head of capacity costs which would be incurred if the minimum amount or a normal amount of gas were going through the line and you have put under the Column 4 which is headed "Volumetric Costs" these additional costs that are a result from increases in the amount of gas that is put through the system. Is that generally the principle?

A. Suppose I give you a clear definition.

Q. All right.

A. It has been found that the costs of these two companies, after being classified as to functional divisions of

operation should be further segregated into three general classes which may be defined as follows:

1. Volumetric costs are costs incurred predominately in proportion to the volume of gas handled, irrespective of the rate of delivery.

2. Capacity costs are costs of a consistently recurring nature which vary with the rate of gas delivery and are independent of the operating load factor. The customer costs are costs incurred to render special service to known customers, attributable only to the service rendered to such customers. Such costs are further of a nature that there is little or no relationship or mutual benefit with other customers connected to the same pipe line facilities.

Q. Now, excuse me, Mr. Lyon, the last sentence you read, that relates to transmission or are you getting over to distribution?

A. You are correct, it does not relate to transmission. Distribution may be deleted if you care to.

Q. Let's just take the transmission until we get through with that. Now, how do you make your division of some of these items? For example, on Table 8, Line 2, you have split that total cost of operation of the compressing system 50-50 there.

A. Yes.

Q. Upon what theory or basis was that done?

A. My opinion based on my experience and knowledge of the gas industry.

Q. That is, about half of the labor and supervision in operating the stations is related to the volumes that go through it?

A. That is correct, and further, I might state that the general reason for that is that a station that is shut down but available for use carries a skeleton crew which is generally about half of the crew that is necessary to operate the station's full load.

Q. Is that in accordance with your experience with the Arkansas-Louisiana company?

A. Generally, yes. I would say that as applied to that particular company probably more than fifty per cent of the costs could be classed as volumetric costs. By skillful operation they would be able to reduce operating expenses on stations not in use more than fifty per cent.

Q. You mentioned that this was based on your experience in the natural gas industry. I was not aware that you had any more experience except with the Arkansas-Natural system.

A. As far as experience in the employment of a natural gas company, that is correct, but in the past two years I think I have visited a number of compressor stations and discussed matters relating to natural gas compression with a number of engineers.

Q. That is, in the course of your duties for the Power Commission you have made inquiries?

A. That is correct. I might add that it is my understanding that that is substantially corroborated by the testimony of Mr. Rhodes in this case in his estimate at one point.

Q. Now, then, there are a number of items there you have divided 50-50, and is that on the same theory that you have just indicated?

A. The item on Line 3, operating of compressing station system supplies and equipment has been allocated to volumetric costs. This item is practically all composed of cost of fuel, lubricating oil, waste and supplies, and that is related to the operation of the facilities and to the volume of the gas pumped. I think it is appropriately classed a volumetric cost.

The item on line 6, maintenance of compressing station equipment, has been classed as a volumetric cost because I believe that that maintenance is proportionate to the volume. A portion of item on line 11 has, as indicated in the footnote, covers accruals for depreciation of compressing station equipment, and I believe that that is appropriately related to volumetric costs.

The Federal and State income taxes that went into the return are allocated 50 per cent to volumetric cost and 50 per cent to capacity costs, based upon my judgment and opinion as to where those costs appropriately rest.

Q. Well, that is again on the basis of skeleton construction operation, just about like you said a while ago?

A. No, not the return and income taxes.

Q. What is that?

A. I believe that the risk of return for transmission facilities should be distributed in accordance with the volume of gas handled and I have placed 50 per cent of the return as constituting the risk element in transmission into a volumetric cost.

Q. So if no gas were handled at all, you would have a return figure there of 50 per cent of the property?

A. No, I have a return at half the rate.

Q. It would work out the same, wouldn't it?

A. If it were a question of mathematics, but my position is the facilities installed ready for use but not used carry one rate, and facilities installed and used carry another rate, and that 50 per cent constitutes the risk.

Q. Now, in making this computation on volumetric cost, you again get to an average figure representing a little better than three cents, which is the cost of transmitting each thousand cubic feet of gas through the system from Bivins station up to Denver?

A. That is correct.

Q. I want to ask you with reference to this Exhibit No. 138 which was prepared by Mr. O'Connor, the flow chart showing where the gas comes in where it goes out—you are familiar with that?

A. Yes, that is Mr. O'Connor's map.

Q. Here is the delivery, say at Dalhart, Texas, which is a few miles away from Bivins. For every thousand cubic feet which is taken out of the line at Dalhart you apply that volumetric factor of three cents plus?

A. Yes, I have.

Q. So that for every thousand cubic feet of gas taken out at Denver you would again apply that three cents?

A. That is correct.

Q. So that even though the Dalhart gas uses just a small portion of the system, it pays just as much of the volumetric cost as the gas that comes out at Denver?

A. You say "use." I think the Dalhart delivery is a part of the general system and it uses the general system, that transmission system, and the costs involved in serving Dalhart are so interwoven with the general system of costs it is not possible to segregate a portion of the facilities through which that gas flows and attribute that to the service at Dalhart.

Q. You, of course, recognize that the gas going to Dalhart only flows that far?

A. It flows that far.

Q. And it never gets up here north of Pueblo where the line is reduced to 20 inches?

A. That is correct, that flow of gas doesn't flow that far.

Q. If you cut this line off at about where the lateral goes into the Arkansas Valley, still Dalhart would get its gas?

A. If you cut that line off you wouldn't have gas to Dalhart.

Q. The utilization of property is what I am speaking of. Suppose this line ran 2,000 miles, running to Chicago and Detroit, you would then still charge Dalhart the same rate?

A. That would be hypothetical. I am—

Q. Let's take the Panhandle Eastern. Do you know that line?

A. Generally. I am not familiar with its markets.

Q. You have been with the Federal Power Commission two years and you know it is a prominent line, don't you?

A. I understand its market is in Detroit.

Q. From the Texas Panhandle field to Detroit is about 1200 miles or more?

A. Approximately. I believe it is a little longer than that.

Q. Under your theory you charge the same volume rate to a small town in Missouri that gets its gas from the line as you would charge Detroit?

A. Not necessarily. Upon determining the cost used in this exhibit—

Q. Just a minute. What is the difference between the application of your principle of a line 1200 miles long and one that is 450 miles long?

A. That is what I am trying to answer you. Upon determining the cost used in this exhibit, careful consideration has been given to recognized methods of cost determination and costing procedure, customs in the trade, and the special engineering features inherent in the construction and operation of this particular property. Proper effect has been given in each determination to the principle of cost procedure that it be directly related to the particu-

lar property being considered, to the manner in which the property has actually been constructed, and to the manner in which the property is actually operated. It has also been borne in mind that the method adopted should be stable and susceptible to continuous application, and that it should not be allowed a distortion in cost resulting from transient disturbances in operating conditions or an expedient operating procedure to result in an erroneous allocation to one group of customers to the benefit or detriment to another group.

A careful study has been made of the gas service rendered by these companies, the geographical location of the various markets, the composition and character of loads served, the cyclic seasonal nature of the requirements of gas for certain uses such as space heating, the service requirements of the various classes of customers and other relevant factors having a bearing upon the determination of the cost of rendering gas service. A careful study has also been made of the source of the gas supply, the geographical location of the supply with reference to the various markets, the extent of the market area served and the density of the demand in various territories. The general history of the construction of the property, its operations and the development of its markets have also been studied and considered in the preparation of this exhibit. I think the method I followed is correct.

Q. I know you think that, but as I don't think so, that is the occasion of this dissertation. Actually, this 20-inch line —I will refer to it as that—serves mainly Colorado Springs, Denver, and the Colorado-Wyoming Gas Company?

A. That is correct. The load center of the system is located—the volumetric load center on an annual basis is located for the two consolidated companies at a point approximately half-way between Denver and Pueblo or near Colorado Springs.

Q. Well, starting at Denver, that portion of the line which runs down, say as far as Pueblo, actually—I will take the Devine station located on this map, Exhibit 138, the pipe from Denver to Devine station serving Colorado Portland Cement Company, Fountain Valley School, Colorado Springs, Denver—that is the Denver area, and the Colorado-Wyoming Gas Company, and no other gas goes

through there except that that goes to the customers, isn't that correct?

A. I don't agree with the use of the word "serves." The gas flows through there. The gas moves through there. As to the question of service, I think that the line south of that point is just as much involved in the service of those customers as the line north of that point. It is necessary to have both. It is linked into a chain to serve the whole system.

Q. I am not saying the line south of Devine doesn't serve the customers north of Devine. Let's start at the other end. Maybe it will work better.

When you start at Bivins and go through the 22-inch line, all of the gas that goes to Denver, of course, flows through that?

A. That is correct.

Q. And, therefore, uses all of it?

A. That is correct.

Q. You are accordingly making Denver pay a portion of the volumetric cost of transporting gas through that whole 22-inch line in your computation, a part of the costs that Denver pays are built up with the expense of moving the gas through the 22-inch line or system?

A. That is correct. The same thing applies for the other customers served from the same transmission line.

Q. When you get to where the Colorado Fuel and Iron Corporation takes over, gas which flows to that company does not flow from there north to Denver?

A. That is correct.

Q. Your method of computing volumetric costs makes the Colorado Fuel and Iron Corporation pay just as much of the volumetric costs involved in taking gas there at Pueblo as it costs in Denver?

A. I have totaled the cost of the entire line and divided the volume from the line. I do not segregate the cost north of Pueblo and the cost south of Pueblo. I take the total costs and total volume—

Q. I understand that. Isn't it a fact that gas that goes to the Colorado Fuel and Iron Corporation is by your method sharing a part of the volumetric cost engaged in transporting the gas from that point north up to Denver?

A. The premise for that would be that I by allocating

costs uniformly, allocate portions of that cost uniformly. That conclusion is not to be drawn from this exhibit.

Q. That is what happened, however?

A. That would be your assumption.

Q. As a matter of fact, your proposition is that all of the line is a composite thing and everything serves everything else and the volumetric cost ought to be uniform for every customer. What I am pointing out, Mr. Lyon, is as the result of that in dollars that gas delivered to the Colorado Fuel and Iron Corporation is bearing its proportionate share of the volumetric cost in operating the 20-inch line north to Denver. That is the result, isn't it?

A. That is a point of view. I don't necessarily state that this average cost which is built up of seven items is to be uniformly assessed.

Q. You have done it in your Table 1.

A. I say that the total of those expenses is to be uniformly assessed.

Q. But what you did on Table 1 was uniformly assessed.

A. I uniformly assessed a portion of the total.

Q. You broke your total down uniformly among your component parts?

A. I sum up the component parts to a total and apply the average cost to it as an average point of service.

Q. It is all the same. You come out mathematically the same?

A. Yes, mathematically.

Q. If instead of using this as one system if we blocked it out and took this 22-inch portion of the line and determined the volumetric portion there and prescribed that to every thousand cubic feet of gas that flows through it, and if we came on up the line, and when we got to the 20-inch line we made that same determination and applied those volumetric costs only to that portion of gas which flows to that portion of the line, we come out with a different volume unit cost applied to these different customers, don't we?

A. If you applied costs in a manner different than what I have in this exhibit—

Q. I mean if we applied it in the manner I stated by allocating the cost of the line to the gas that flows through that line.

A. That is correct, you would.

Q. We have a higher volume cost to apply for the Denver gas than we would have for the Colorado Fuel and Iron Corporation or that we would have for the gas that goes into the laterals in the Arkansas Valley?

A. Your cost would be cumulative, that is correct.

Q. So that the result of your system of doing this is in effect to build up the cost of service of this direct sale gas which the company sells, isn't it, and reduce the cost of serving the gas that goes all through the line clear to the end of it and is sold for resale purposes only?

A. I don't follow your direct sales and resales.

Q. You know what this company sells to customers for use, do you not?

A. It sells to distributing plants and it sells directly to users.

Q. You are familiar with the provision of the Natural Gas Act that talks about gas that is sold for resale for various purposes?

A. I think I am generally familiar with the Act.

Q. Didn't you ever read it?

A. Yes.

Q. Will you for the purpose of this discussion—when I say "direct sale gas," I mean gas the pipe line company sells for consumption, and when I say "resale gas," I mean gas that it sells to distributing companies, for example, the City of Colorado Springs for resale or distribution.

You are familiar with the fact that all of the direct sale gas the pipe line company sells for consumption, the main part of it is delivered at Pueblo or south of Pueblo, and then to the Colorado Portland Cement Company just north of Pueblo?

A. The largest customers served in that territory by the Colorado Interstate Gas Company is a direct industrial sale.

Q. So following your plan of allocating or determining volumetric cost on a system basis you arrive at a greater number of dollars to be applied to the volumetric cost of this direct sale gas of the company than would be under the plan I mentioned.

A. Just fractionally, yes, because of the fact that the oad center on the volumetric base is north of that indus-rial delivery.

Q. Using the plan I have mentioned to you, it would be a greater portion of that volumetric cost going against the Colorado-Wyoming and Denver than actually is assessed against it under your plan?

A. Greater, that is correct.

Q. So that as I say, the result of your method is to tend to increase your computed cost of gas that this pipe line sells to these industries for consumption and to correspondingly reduce that that goes all the way through the line and comes out at Denver?

A. I give no consideration as to whether the delivery is made to an industry or to a distribution plant or if it is resale gas or direct consumption. It is a factor, of course, under the method you have outlined that the farther the gas flows the more costs there are to accumulate. Under the method I have followed the geographical distribution of the load within that common cost zone is of no consequence.

Q. How far would you extend a pipe line before you would change your method? What is the limit of your distance?

A. I would have to see the pipe line.

Q. When you make your computation on your maximum demand you still through this average theory—that is the next group you have there—under capacity costs after having arrived at what might be called the unit capacity cost, you have again applied that uniformly over the whole pipe line without giving any consideration to the distance the gas moves?

A. It is not quite as simple as you have illustrated it, but it is in principle correct. It is a uniform basis.

Q. Yes.

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* * * * *

Q. Mr. Lyon, referring to your Table 8 and the dollars which you show at the bottom of Column 5 for capacity cost, my understanding is that you have made an allocation of those costs to the various different points by using the data contained in Columns 7, 8 and 10, Table 27.

A. That is correct.

Q. Am I correct in understanding that the total deliveries shown in Column 9 which are then divided between domestic, commercial, and gas lost; and Column 7, domestic, commercial gas lost; and Column 8, represent the actual peak delivery day of the Colorado Interstate Gas Company, or, rather, the Denver line, I should say, during 1939?

A. The information in this exhibit relating to the annual volumes of gas handled, the maximum daily gas requirements of each customer or group of customers, and coincident maximum daily requirements for each class of service have been secured from the books and records of the respondent companies by engineers of the Commission. In some instances the respondents' records have not reflected the actual daily requirements, the shortest period for which volumes were reflected varying for different groups of customers. It has been necessary, therefore, to determine the daily demands in such instances by engineering estimate.

In all instances where daily meter readings were available, such readings have been used. Where weekly or monthly data constituted the shortest interval of time, it was necessary to estimate the daily volumes by engineering estimate based on information relative to the character of service and probable requirements of such customers or groups of customers on the particular day under consideration.

In those instances where it was necessary to estimate the demand of certain small communities, they have been determined at an amount approximating the average daily demand for the week for which readings were available, modified to the extent that indications of weather in the period and type of user necessitated.

In those instances where it was necessary to estimate the demands of industrial users within the distribution plants served by these two companies, the demands have been determined from the number of working days in the month.

Where it was necessary to estimate the demands of small industrial users served directly from the pipe line, they have been estimated at approximately the average daily demand computed from the number of calendar days in the weekly or monthly period for which readings were available.

Q. Then this figure at the bottom of 94,998,000 cubic feet would not then represent the actual peak day deliveries made during 1939 but does represent as much actual data as you had and then some computation is made?

A. With respect to Column 9?

Q. Yes.

A. It was necessary to make certain estimates. The estimates, however, in Column 9 are inconsequential in proportion to the total volume.

Q. With respect to the figures in Column 7, are those taken from the records of the company as stated here, or have estimates been made as to some of those figures?

A. There are estimates in Column 7. In fact, I would say that the bulk of Column 7 was of necessity estimated and the estimate, of course, affects the determinations in Column 8.

For instance, the delivery to the City of Denver at the town border is reflected in that exhibit as 36,104 Mcf. The distribution between domestic and commercial, gas lost, is in one class and industrial in another class, which were determined by engineering estimates.

Q. Did you get from the Public Service Company the total of their metering readings of large industrial customers on that day?

A. No, we made inquiry but were not able to secure sufficient information to make the determination any more accurate than an estimate in the first instance. The figures for the industrial demand was secured through the local engineers here for certain of the customers. The remainder of the customers would of necessity be estimated and I thought for the purpose of this exhibit it would be reasonably accurate to make one estimate.

Q. Did you make this estimate or did the engineers here at the Denver office of the Federal Power Commission make it?

A. It was made under my supervision. I believe for the City of Denver I made the estimate myself, as I recall it.

Q. In that figure of 8,734 Mcf., did you take certain daily averages of deliveries to industrial customers based upon previous months in arriving at your 8,734 Mcf.?

A. No previous month. The estimate was based upon the

deliveries in the particular month in which the peak occurred. In this instance it was February 1939, so the records of the Colorado Interstate Gas Company reflecting the volume of industrial gas in the month of February 1939 were the principal data used in that estimate.

Q. Now, do I understand that the 36,104 Mcf. which is shown as the delivery to Denver, is that the maximum day for Denver during February 9, or is that the actual total delivered at the town border on February 9?

A. That is the delivery to the city of Denver on the day of Thursday, February 9, 1939, the day on which the system delivered the maximum amount of gas.

Q. So that February 9 was the system's peak delivery day?

A. That is correct.

Q. Then you had the information of the total delivered to each customer from the pipe line on that day?

A. Yes, there were a few instances, however, in the very small consumers who had excess pressure chart displacement meters that are read once a week.

Q. Those would be smaller customers?

A. That is correct.

Q. The estimates relating to the division of Column 9 into Columns 8 and 7?

A. The bulk of the estimating.

Q. In using the word "coincidental," you mean those were the actual peaks as occurring, that is, forgetting the estimate part of it, on that very day?

A. Yes, coincidental.

Q. You have in Column 10 a different set of figures which column is headed "Individual Maximum Day Delivery to Industrial Customers."

A. That is correct.

Q. I take it that represents a group of non coincidental peak deliveries?

A. That is correct.

Q. How would you get those deliveries for industrial gas to these various utility companies?

A. Those figures in Column 10, which are the individual maximum day deliveries to industrial customers, served in the distribution plants which are supplied at wholesale by

this company; were determined, as I previously stated, by the determination based upon the month in which—

Q. You took the month of February and took out the average daily deliveries for the month of February for the delivery of average industrial gas?

A. The month in which the maximum demand for this class of service occurred has been determined from a study of the aggregate monthly deliveries to that community. The determination was then made of the maximum daily requirements for this class of service in the particular month which indicated the maximum average daily delivery.

Q. Well, the figures in Column 10 may or may not be in the month of February?

A. That is correct. Some of them are coincidental with the system peak and some of them are not, and the section would show that.

Q. I note that you have no similar column with respect to domestic and commercial, and gas lost. Why is that?

A. The transmission system peak day delivery of these companies is consistently recurring and coincident with the maximum demand of the domestic and commercial customers. The dominating effect of the weather upon the requirements of gas for heating purposes by this class of service, and the almost simultaneous changes in temperature in the several markets served, together with the immediate effect of this demand upon the transmission system, makes the determination of this responsibility readily ascertainable:

The demand responsibility for domestic, commercial and lost gas, therefore, has been determined by their coincident demand on the day of the system peak.

Q. As a matter of fact, you don't know whether the day of February 9 was the peak day for domestic, commercial and gas lost for each of these customers indicated on Table 2?

A. I believe that it is to such a degree of accuracy that it is suitable for the purpose of cost allocation.

Q. You have a great number of miles difference between some of the areas served and others, so if you did have a variation of temperature, for example, at Denver and at Pueblo, and a different degree date deficiency, you might, therefore, get a diversity of peak day?

A. I do not agree. For instance, in December 1940, the

most recent peak, I believe the mean daily temperature in Pueblo was between 1 or 2 degrees within what it was in Denver.

Q. Well, you would agree with my assumption that if the temperatures were different in the two places, then you would get a different effect?

A. I am afraid we are confusing temperature with load. If the temperatures change simultaneously, the loads change simultaneously and there is no diversity. The severity of the weather, of course, is dependent upon the elevation, the latitude and the location with respect to bodies of water and things of that sort, but if the cold wave moves steadily at, say, 20 miles per hour which is the general wind velocity during the winter seasons, it would move 200 miles in 10 hours and the space of 10 hours would involve this entire system.

Q. So your assumption does depend on that and you have to look to the records to know whether the weather condition had uniformly held true. I appreciate you are very definite about it in your mind, but I assume that if the record showed you were wrong you wouldn't dispute it?

A. There are a number of minor factors, but none which I believe would be of consequence in using the figures for the purpose of allocating capacity costs.

Q. What was the purpose of determining the non coincidental peak day for the industrial customers? Can't you answer that without looking at your notes, Mr. Lyon?

A. Yes, I am trying to phrase it to make it clear. I am trying to use these technical words and they are confusing unless you get the specific word you want to use.

After the capacity costs have been allocated between the two classes of service, domestic, commercial, and loss of gas on the one hand and industrial on the other, it is my judgment and my conclusion that the proportionate amount of those capacity costs that should be allocated to each group of industries or industry is served at one point, should be determined by the responsibility that the system incurs without regard to the month in which it happened.

The peak demand for industrial service is not controlled or determined as it is for domestic and commercial gas by the weather, and the uncontrolled diversity in that group of customers is a matter to be considered.

Q. That is, it is the maximum obligation that the pipe line has to the industrial customers which you think should be considered rather than the actual delivery on the peak day, the single day that you take?

A. On the day of the system peak,

Q. Yes, system peak. That is, I say, the maximum obligation which would really be represented by the most gas that they took in any one day during the year.

A. That's correct.

Q. That is what the line is obligated to serve whenever called upon and it is that obligation that you use in this column rather than the actual deliveries on the system peak day?

A. The difference between the use of the peak responsibility (and peak responsibility means the deliveries coincident with the system maximum delivery is, as I stated, due to the fact that the factors involved in serving the industrial customers are not present, or, rather, are not similar—are not the same as those in serving the domestic and commercial customers.

Q. That domestic and commercial customer demand depends a great deal on degree day deficiencies.

A. Well, the maximum demand depends to a considerable extent on the severity of the weather.

Q. Whereas, with industrial customers it depends on the capacity of which the plant is running and that may be greater in the summer than it is in the wintertime; that is, the use of the gas?

A. Will you read the question, please?

(The question referred to was read by the reporter as set forth above.)

By Mr. Dougherty:

Q. The industrial plant, I mean, not our plant.

A. I am sorry, I don't understand.

Q. Well, take the American Crystal Sugar Company. Do you have the month in which this maximum individual day occurred there in your notes?

A. Yes. For that particular customer it occurred on November 17, 1938.

Q. Well, that illustrates what I was attempting to phrase,

namely, that customer peak depends on the operation of the sugar plant when they reached the maximum. They had no reference to the weather.

A. That's correct.

Q. Do you think, then, that to prepare a similar set of figures; that is, of non coincidental peaks for the domestic and commercial gas lost would come so close to the actual coincidental peaks, that the deviation would be very slight?

A. I wouldn't get that, but I will state this, that if you took into account the effect of such a determination in a study of this sort that it would not seriously change the determination.

Q. The amount of dollars which you—I say, the amount of dollars which you have ascribed to all of the direct industrial sales made from the pipe line on Table 1 under the heading of "Capacity Costs," which you have lumped there as $498,795.84, is the result of computations based upon the ratios in Column 10 on Table 2, I take it?

A. Yes.

Q. Now, did you make any computation on the basis of the coincidental system peak for industrial gas under Column 8 on Table 2, to see whether or not that would give you a greater or a lesser amount than the $498,795.84?

A. I have made some test checks.

Q. Well, doesn't your use of—

A. —which show that that would be approximately $494,000.

Q. Well, your figures check with mine, Mr. Lyon, so the result of the use of Column 10 gives a few thousand dollars more cost against the direct industrial sales than if you used the figures in Column 8.

A. There is very little difference. The method which results in the answer that I just gave of $494,000 would be an allocation based solely on peak responsibility and I believe that the method which I have presented here, although a little more complicated, is a more refined and accurate determination of the costs.

Q. But it does result in a greater capacity cost against the direct industrial sales than the alternative method or the other method would of some $4,000?

A. About one per cent of the capacity cost which is around .4 of 1 per cent on the total cost.

Q. Now, in making up this statement on Table 2 I note you lump all industrial gas together. Did you take into consideration and give any effect to the different classes of industrial gas that are sold to different classes of customers that use it?

A. In this exhibit the allocation of capacity cost to classes of services and the individual customers have been made upon the basis of a participation of each class of customer in the system peak demand with regard to priorities of service, an examination of the industrial contracts indicate that the majority of them contain shut-off clauses which would permit the companies to reduce industrial demand at times of peak if desirable from an operating standpoint. To the extent that reductions are actually made in the future it would be appropriate to reduce the allocated capacity assessment against the class and the individual industry affected during the year.

During the year 1939 I have given no effect to any curtailment of service by reason of insufficient pipe line facilities. Since that time it is my understanding that the system has reached a new maximum peak but has likewise installed additional compressing facilities and increased the transmission system capacity and it is my understanding that they have not severely curtailed their service as yet. When and if that occurs in fact—when it occurs in fact there are grounds for relieving an industry of some portion of its capacity costs.

Q. You, however, do not recognize any reduction that should be made on the basis of the right of shut-off. You require the shut-off to be exercised before you give any effect to the different priorities in the different classes of gas?

A. I believe it should be either exercised in fact or imminent. A dormant clause in a contract which is not exercised and may not be exercised for the life of the contract is a speculative matter.

Q. The prior right that the domestic gas has which assures it that under no circumstances will there be any curtailment of the domestic gas should be given no effect in such a study under your method?

A. In speaking generally I couldn't answer, but speaking specifically for this company I am firmly convinced that

no effect should be given for the reason that this company has installed additional compressing facilities in lieu of shutting off the industries.

Q. That is the basis you work on, instead of determining affirmatively the value which the domestic gas has, it being assured that it would not be curtailed, you work at it negatively and more or less charge industrial gas with its lack of priority in the event there is actually a shut-off?

A. I am afraid you misunderstand. I do not consider value in cost allocation. I consider cost alone, not what the service is worth.

Q. What's the difference in value and what the service is worth? Isn't that what value means, what something is worth?

A. Value is what it was worth, but the value may not be what it cost. Value is not synonymous with cost.

Q. I thought you were using what it was worth as synonymous with cost.

A. No, this is a cost allocation.

Q. And in making that cost allocation it is your opinion that no consideration should be given to priorities between different classes of gas unless some actual use has been made of those?

A. No, I didn't state that. I said it was imminent.

Q. Or was imminent. I will modify my question to that extent. I note you have made studies on allocating cost to various classes and kinds of gas service, and what you have just said I suppose represents the type of study or the type of principle you would use in the study in determining the allocation of the cost to various classes and kinds of gas service.

A. This study is related to this system.

Q. Have you made any assumption in making this study as to whether or not this investigation concerns itself with all of the gas which is sold; that is, with the prices of all of the gas which the pipe line sells?

A. The revenues derived from the sale of gas have been added to this exhibit only for comparative purposes. This study is a determination of the cost of service without regard to the revenue being collected.

Q. Well, that wasn't just what I meant. I meant, were you in determining what you call the cost of service on these

various classes of gas to various customers, are you making any assumption that the Power Commission is investigating the reasonableness of the prices charged to all of those customers or only to some of them, or what assumption are you making?

A. I am making no assumption.

Q. This is without reference to the question of reasonableness of rates with respect to the different classes of customers?

A. That is correct.

Q. Did you give any consideration to the question of dividing your study so that it would show on the one hand the costs incurred in selling the direct industrial gas which you call direct industrial sales and on the other hand the cost involved and selling gas to the utilities in the city of Colorado Springs for resale?

A. I have determined those costs as a part of this exhibit.

Q. You, however, have not classified the gas as between the resale gas and the direct sale gas because what you—

A. No, I believe that at the time I introduced this exhibit on direct examination I indicated that when I used the words "industrial gas," that that was the class of consumption and that when I said, "gas purchased for resale," or "gas sold," that it was the entire volume.

Q. You do understand that industrial gas which you have shown here on Table 2 starting with Line 16 on down through Line 45, I guess, represents sales to industrial customers by the various utilities and that those industrial customers are not customers of the Colorado Interstate Gas Company?

A. Well, that wouldn't be a definition of what you consider a customer. I would say that gas is being delivered at the city gate.

Q. Well, it is your understanding, for example, that any of the gas under Column 5 under the heading "Industrial," starting with Line 16 on down through to Line 39 represents gas sold by the pipe line to industries for which the pipe line collects directly from the industries?

A. No.

Q. It is your understanding, then, that all of that is gas

that is sold at the city gate to these various named utility companies?

A. Correct The class consumption has been the basis of this grouping here and this is for the purpose of determining the responsibility of the pipe line. The responsibilities of the distribution plant are carried back and borne by the pipe line system.

Q. You have included, then, under the industrial gas which the utilities sell all of the small firm industrial gas that is not subject to interruption without earmarking it?

A. That presupposes that there are industrial sales that do not have shut-off clauses and I haven't checked each of the industrial contracts to see which of them do not contain shut-off clauses.

Q. Well, if there are small consumers in the various communities that use gas for different types of industrial use but in small quantities and buy it under a rate schedule which does not contain an interruptable clause, that gas is likewise included under Column 5 in Table 2?

A. Yes, this classification of service has been an attempt to classify the industrial gas.

Q. So there with respect to gas that the utilities sell to industries you have made no determination as to that that is interruptable and have not considered priorities of service there?

A. As between industrial customers, no, there are no priorities considered as between industries.

Q. Now, on Table 9, which I take it represents the cost of measuring stations, does that in principle represent anything else?

A. That is the cost of distribution. One of the major functional divisions of operations of the company as set out. As in the accounting Examiner's report as particularly related to Canadian River Gas Company and Colorado Interstate Gas Company practically all of that expense is measurement stations at points of sale.

Q. Are there any expenses of laterals included in the figures on Table 9?

A. Not to my knowledge.

Q. Now, will you explain on the second page of Table 9 the basis of allocating equal number of dollars to each delivery point?

A. You will note on the first table of Table 9 that the total cost—Line 16, Column 3—in amount of $88,002.36, has been allocated into two classes. Those costs which are allocable equally to each customer and those allocated on the basis of the adjusted book cost of the plant as at 12-31-39. Those costs which have been *occurred* more generally in proportion to the capacity of the facilities and property involved have been allocated in proportion to the adjusted book costs of the property at each point of service as at December 31, 1939 and those costs which are generally incurred equally per customer have been allocated equally to each point of delivery. Included in those costs allocated equally per customer, are office expenses maintenance of office equipment. The proportion of general expenses and proportion of labor taxes applicable to those two classified direct costs in the accounting Examiner's reports—the office expenses are $11,037.14, and maintenance of office equipment $327.70, the total of which is the $11,364.84 shown in the exhibit. The remaining distribution costs such as maintenance and operation of field measuring stations and so forth are all included in Column 5 which is allocated on the basis of adjusted book cost of plant as at December 31, 1939.

Q. Now, you have taken, then, this $15,138.62 which is roughly the general office expense of some other items and just divided that by the figure 27 and allocated the equal amount to each of the delivery points?

A. That is correct.

Q. You made no study of the time actually consumed in the office as between the various accounts?

A. No, I have not. That degree of refinement would be practicable if we were to carry an allocation study to its ultimate conclusion. That would necessitate an examination of the vouchers and conferences and I doubt whether the resulting answers would be any more accurate than the determinations I have made in this exhibit.

Q. Well, that results, for example, in following that method as shown on Table 1 for selling gas to the United States Department of Interior for the helium plant at Thatcher for $440, costing $1,373.04? Do you think we should write to Mr. Ickes and ask for an increase in our rate?

A. I am not prepared to state how you should conduct

your business but it should be borne in mind that a cost allocation if carried to its ultimate conclusion and refinement would necessitate a burdensome investigation far beyond the usefulness of the report.

Q. Now, as a matter of fact, if no gas were sold to that plant at Thatcher there would be no decrease in the expenses which you have set forth in Table 9? I will take that back when I say "no decrease." I mean with respect to office expense which you have allocated equally per customer.

That is, in small operations of that sort its elimination would not make any difference in the amount of work that would have to be done in the office?

A. It should, otherwise, if carried to its conclusion, if you had no business you would still have those expenses.

Q. Do you think we could lay off one clerk then, for example, if that billing of one bill a month to the United States Department of Interior were eliminated?

A. I don't know. He should have additional time to do other work if not engaged in billing.

Q. As a practical matter it wouldn't make much difference, would it?

A. As a practical matter?

Q. Yes.

A. I don't know as I could answer that directly, because the construction would be placed that Sullivan would be in the same position, Santa Fe next; the third one would be next, and after you had taken them all out you would have the same expense and no customers.

Q. It could be carried to ridiculous extreme, but I wasn't asking you the additional questions. Maybe you haven't had the experince of operating that—

A. Yes, I have, and I know you wouldn't hire one man for each new customer or you wouldn't discharge a man for each customer lost, but your expenses are proportionate to the business you are doing.

Q. Now, when you get through on Table 1 you get at what is an average figure under your heading of total cost, column 10, for the gas sold each customer, do you not? I don't mean an average figure, I mean a total figure for all of the gas sold which is arrived at by considering the average cost as incurred by the company.

A. Will you read that back, please?

(The record referred to was read by the reporter as set forth above.)

The Witness: There are so many averages involved there that I will answer it this way; that the total cost is the result of the application of each average—I will state that Column 10 is the result of the application of average costs within the various functional divisions to the various customers and that those costs after being summed up result in the total cost to that particular point of service and as shown in Column 10 Table 1.

By Mr. Dougherty:

Q. You use so many averages because there are so many average computations in here, Mr. Lyon?

A. That is correct.

Q. Now, do I understand it is your position that in arriving at the price at which this company should sell this gas it should do it in the manner which you have made this study; and the figures in Column 10 represent what ought to be charged by it irrespective of the class of gas or the use to which it is put, or the load factor, or any other characteristic of the business?

A. I have not made the statement that the total cost in Column 10 is the price that should be charged. The determination on the rate is a matter separate and apart from the determination of cost, and it might be appropriate to add here that these determinations provided helpful information by showing the degree of refinement practicable—

Q. This morning we were discussing incremental cost and I thought you said to base costs on incremental cost would be discriminatory and that they should be based on average costs as you have indicated in this study.

A. Base prices?

Q. Yes.

A. I determine costs on incremental costs.

Q. Where does discrimination enter into it in the question of the determination of the cost?

A. Because the new customer is equally entitled to service that a customer gets who exists on the pipe line.

Q. Does discrimination result except through the charg-

ing and payment of money at a different rate or on a different basis by one customer from another?

A. The discrimination results in the application of incremental costs to the new customer and the costs for the facility presently installed to the old customer. When the new customer is attached, he is attached by reason of the fact that the system is already in existence. When he becomes attached he should bear his fair share of the costs of business.

Q. Well, the discrimination can only result if he gets on and actually pays some money; it doesn't result by just making a study like this.

A. I am sorry, but I don't understand that.

Q. The mere determintion of what it would cost to serve a customer on an incremental base doesn't result in discrimination, does it, unless he actually buys gas at that price?

A. I am sorry. I don't understand you. If you mean a customer is not connected and not being served—

Q. I mean just this: Do you conceive of the fact that discrimination between customers can result unless they are actually buying gas and paying prices for it?

A. For discrimination to exist to the customer being served—if you have no customer, then you have no discrimination.

Q. So I take it your judgment is that to enter into a contract to sell gas at a price which is based on your incremental cost, that it does result in discrimination if it is sold at that price?

A. That would be a definition of what constituted unreasonable discrimination.

Q. I thought that was what you said this morning and I was trying to get straight in my mind what you meant.

A. In my opinion that would constitute unreasonable discrimination?

Q. No.

A. I couldn't venture an opinion on that.

Q. Whether or not in your opinion gas was sold at a price which was computed on incremental cost bases that would result in discrimination, that is what I meant.

A. Yes, I believe it would.

Q. And if it should turn out the price at which this industry we discussed early this morning would buy the gas

would be less than the average cost computed after the customer would be connected, then of course you shouldn't sell it?

A. No.

Q. Even though to sell it you might make some profit?

A. No, I didn't say that.

The determination of this cost, if you recall, includes an amount of return; the amount of return you are allocating is based upon what I have shown here. The amount of return that you collect may depend upon a number of other matters. This is a determination of cost. If you do not collect the full cost, that is a fact, you don't; if you collect more than the cost, it is likewise the fact you do; as to whether you collect more or less than cost, that is a question of determination of fact and that is what I am trying to show here; as to whether your failure to collect full cost from one customer or not, that is a matter of consideration in these proceedings, and I believe it will be determined as to what extent that amount is to be considered.

Q. Then, do I understand that in making these computations and showing total costs here under Column 10 you are not putting forward these figures as being prices or dollars at which gas should be sold to these customers by the Colorado Interstate Gas Company?

A. I am not fixing rates; I am determining costs as one of the elements to be considered in fixing rates.

Q. What is the purpose of setting up this column showing revenue actually collected?

A. As I stated, it was for comparative purposes so that a ready reference could be made between total cost as *determine* in this exhibit, and revenues as reported in the accounting Examiner's exhibits.

Q. Do I understand that you do not put forward the proposition that all gas should be sold at an average price to all customers for all purposes by this pipe line?

A. What do you mean by being sold? Do you mean those are the rates that should be collected?

Q. Yes.

A. I have determined the cost that should be assessed, that should be allocated to each of those.

Q. By so determining you are not expressing an opinion

that all gas served should be sold at the same average rate to all customers for all purposes?

A. I am sorry, but I believe that is the same point, that I am not fixing rates, but I believe a determination of cost of service is something to be considered while fixing rates.

Q. Am I correct in assuming, then, that you are not making this study as an expression of your opinion that the same average price should be charged for every thousand cubic feet of gas sold each customer?

A. No, I am not expressing an opinion as to whether this cost of service should be the sole measure of revenues.

Q. In connection with the allocation of transmission cost, there was one question I forgot to ask you about before lunch. You have treated the compressors as an integral part of the transmission system, I take it?

A. Yes.

Q. For example, this compressor that is up here at the Devine station which is used for the compressing of gas that is pumped north up towards Denver, you include that in your lump sum computation, the costs of which are distributed against all gas that is delivered from the line?

A. Yes.

Q. That is true whether it is gas that comes out at some other point or is compressed in the Devine station?

A. That is correct. The operation of the line has been directed toward the end of securing overall economy and efficiency without regard to the effect that location of facilities or operating procedures might have any particular customer.

Q The fact that the gas going to Denver is compressed four times doesn't result in any greater charge against the gas delivered at Denver under your method than the gas that is compressed only once?

A. That is correct.

(Vol. LXXXI, pp. 12020-12048.)

* * * * *

The Trial Examiner: Do you have anything further, Mr. Dougherty?

Mr. Dougherty: I have no questions. I have asked Mr. Lange if I might have the working papers on which the maximum demand day was computed for Colorado Inter-

state Gas Company in Exhibit 226, and I have also requested it for the memorandum. That need not hold him up. I may not have any questions, and if so we can do it in Washington.

Mr. McCreery: The working papers and the memorandum will be left here when he leaves tonight?

Mr. Lange: Yes.

Mr. McCreery: So that they will be available to us as well?

Mr. Lange: They will be available.

The Trial Examiner: Very well. I understand, however, that Mr. Lyon is to be excused from the hearing?

Mr. Lange: Well, now, there is this thing about the exhibits themselves: Mr. Dougherty made the statement that if he did want to direct some further cross examination he would do it in Washington. We didn't want these exhibits to hang fire. In other words, we wanted to see that the offer on those exhibits was made.

Mr. Dougherty: Well, you can offer them and I can probably look that stuff over and let you know. I don't believe that it will be necessary to have him here to help on the exhibits in any way, Mr. Lange.

Mr. Lange: Very well on that, because we didn't want the exhibits to hang fire.

The Trial Examiner: Of course the exhibits have not as yet been offered.

Mr. Lange: We were just coming to the point where I wanted to make the offer.

The Trial Examiner: I understand Mr. Dougherty to indicate that it will not be necessary to hold up action on the exhibits.

Mr. Dougherty: No.

The Trial Examiner: In view of his request:

Mr. Dougherty: No.

Mr. Lange: We want to offer them at this time, Mr. Examiner.

Mr. Dougherty: I object to the Exhibits 226 and 226-A.

Mr. McCreery: I object to 227 and I would like to put in the record some formal objections to that exhibit, if the Examiner please. Of course I am not prepared to read them into the record at this time, which can be done, say, Monday.

The Trial Examiner: Well, supposing we take them up then. I don't think, Mr. Lange, it will be necessary to hold Mr. Lyon. Supposing we take these exhibits up, we'll say on Monday.

Mr. Dougherty: That's all right.

Mr. Lange: All three. Did anybody have any objection to 228?

Mr. McCreery: Yes, 228 similarly.

The Trial Examiner: We'll take them all up on Monday, and Mr. Lyon, you are excused from the hearing.

(Vol. LXXXI, pp. 12147-12149.)

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36. Colorado Interstate's Apportioned Costs, Under Basic Contract Terms, Between Resale Gas and Direct Sale Gas to Colorado Interstate at Clayton Junction, as Computed by the Company.

These costs, as computed by the Company, apportioned between resale gas and direct sale gas in accordance with the principles developed in Exhibit 316, abstracted under Title 35 supra, are shown in Exhibit 318 (witness Lusk) and that exhibit, and the testimony relating thereto, is included in Canadian's record hereinafter and adopted by this company. These costs for the years 1928 to 1947 are shown in Statement 1 of Exhibit 318 as follows:

Canadian River Gas Company.

Apportioned Costs of Gas Under Basic Contract Terms Between Resale Gas and Direct Sale Gas Deliveries

To Colorado Interstate Gas Company, at Clayton Junction, New Mexico.

Summary by Years—1928 to 1947 Inclusive (A)

Year	Resale Gas	Direct Sale Gas	Total
(1)	(2)	(3)	(4)
1928(B)	$ 123,266	$ 105,650	$ 228,916
1929	483,635	379,429	863,064
1930	956,310	646,666	1,602,976
1931	1,041,655	646,762	1,688,417
1932	902,561	504,860	1,407,421
1933	871,014	477,082	1,348,096
1934	763,112	485,517	1,248,629
1935	706,233	402,846	1,109,079
1936	708,623	465,774	1,174,397
1937	762,301	439,856	1,202,157
1938	817,456	390,354	1,207,810
1939	823,932	435,497	1,259,429
1940	894,520	462,201	1,356,721
1941	885,198	427,550	1,312,748
1942	874,827	405,642	1,280,469
1943	899,824	398,326	1,298,150
1944	885,135	385,442	1,270,577
1945	870,354	373,371	1,243,725
1946	858,444	371,651	1,230,095
1947	1,151,046	565,428	1,716,474

Notes: (A) From Statement No. 2 attached.

(B) 7 mos.

37. Colorado Interstate's Apportioned Costs, on a Regulatory Rate Basis and Under the Assumption That the Supply of and Markets for Gas Continue Beyond 1948, the End of the Project Term, and Until the End of 1956, Between Resale Gas and Direct Sale Gas to Colorado Interstate at Clayton Junction, as Computed by the Company.

These costs, as computed by the Company, apportioned between resale gas and direct sale gas in accordance with the principles developed in Exhibit 316, abstracted under Title 35 supra, are shown in Exhibit 317 (witness Lusk) and that exhibit, and the testimony relating thereto, is included in Canadian's record hereinafter and adopted by this company. Such costs are shown by Statement 1, Exhibit 317, as follows:

Canadian River Gas Company.

Apportioned Revenues Required from Gas on a Regulatory Basis (A) Between Resale Gas and Direct Sale Gas Deliveries.

To Colorado Interstate Gas Company, at Clayton Junction, New Mexico.

Summary by Years—1939 to 1947, Inclusive.

Year	Resale Gas	Direct Sale Gas	Total
(1)	(2)	(3)	(4)
1939	$ 920,265	$ 446,153	$1,366,418
1940	1,051,028	510,927	1,561,955
1941	1,104,761	504,625	1,609,386
1942	1,096,698	482,165	1,578,863
1943	1,165,938	488,910	1,654,848
1944	1,205,216	489,657	1,694,873
1945	1,239,457	488,045	1,727,502
1946	1,288,770	510,559	1,799,329
1947	1,816,663	842,830	2,659,493

Note: (A) Includes an allowance of 8 per cent return on a depleted and depreciated original cost rate base at January 1, 1939 plus additions thereafter at cost, and provision for depletion, depreciation and amortization by sinking fund method with compound interest at a rate of 2¾ per cent per annum.

38. Colorado Interstate's Net Operating Earnings After Income and Capital Stock Tax of Colorado Interstate from the Denver Line Under Its Contracts, 1928 to 1947 Inclusive, Apportioned Between Resale Gas and Direct Sale Gas on the Basis of Priority Use of Facilities, Applicable to Depreciation, Amortization and a Return on the Original Cost of Its Property, Plus Working Capital.

In Exhibit 320 (Vol. CII, p. 15981) the witness Lusk presents for the respondent the data showing the facts stated in the caption. In this exhibit, he applies to the cost of operation and net operating earnings applicable to all gas sold to all customers, the method of cost apportionment described in Exhibit 316 abstracted under Title 35 supra, and determines, by the application of those principles, the apportioned costs and earnings as between resale and direct sale gas.

As to cost of gas at Clayton, he uses the cost determined in Exhibit 318 and abstracted under Title 36 supra.

He then takes the revenues, expenses and net operating earnings applicable to all gas sold to all customers, the evidence of which is contained in Exhibits 170 and 170-B and related exhibits, all of which have been abstracted supra, and apportions them between the resale and direct sale gas, year by year. His method is illustrated by the computation for the year 1939 included as Statement 3 in this Exhibit 320, as follows:

Colorado Interstate Gas Company (Statement No. 3)

Apportioned Revenues, Expenses and Net Operating Earnings Applicable to Depreciation and Amortization Between Resale and Direct Sale Gas

Computed on Basis of Contracts, Year 1939

Item No.	Description	Basis of Apportionment Exh. No. 316 Statement No.	Total Expense	Apportionment of Annual Revenue and Expense — To Resale Gas — Per Cent	To Resale Gas — Amount	To Direct Sale Gas — Per Cent	To Direct Sale Gas — Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Revenues	(A)	$4,309,232	......	$2,938,383	......	$1,370,849
	Operating Costs and Expenses:						
2	Transmission Lines	11(C)	109,138	82.51%	90,050	17.49%	19,088
	Compressor Stations—						
3	Clayton	12(B)	36,163	72.80	26,327	27.20	9,836
4	Canyon	12(B)	50,619	72.80	36,851	27.20	13,768
5	Devine	12(B)	28,864	94.40	27,248	5.60	1,616
6	Meters and Metering	Page 29	49,236	60.00	29,542	40.00	19,694
7	Total Operating System		$ 274,020	76.64%	$ 210,018	23.36%	$ 64,002
8	Telephone System	Item No. 7	10,225	76.64	7,836	23.36	2,389
9	General Expense and Land Dept.	Item No. 7	88,623	76.64	67,921	23.36	20,702
10	Rate Case Expense	Item No. 7	43,000	76.64	32,955	23.36	10,045
11	Revenues from Rents, etc.	Item No. 7	—8,787	76.64	—6,734	23.36	—2,053
12	Total Net Operating Expense		$ 407,081	76.64%	$ 311,996	23.36%	$ 95,085

13 Operating Taxes	(B)	192,101	81.76	157,062	18.24	35,039
14 Total Operating Expenses & Taxes		$ 599,182	78.28%	$ 469,058	21.72%	$ 130,124
15 Cost of gas at Clayton	Exh. No.	1,259,429	65.42	823,932	34.58	435.497
16 Total Costs before Income Taxes		$1,858,611	69.57%	$1,292,990	30.43%	$ 565,621
17 Net Income before Income Taxes		$2,450,621	67.14%	$1,645,393	32.86%	$ 805,228
18 Income and Capital Stock Taxes	(C)	340,771	62.93	214,447	37.07	126,324
19 Total Net Earnings		$2,109,850	67.82%	$1,430,946	32.18%	$ 678,904
20 Amount Required for 8% Return	(D)	1,109,140	79.85	885,605	20.15	223,535
21 Available for Depreciation and Amortization		$1,000,710		$ 545,341		$ 455.369

Note: (A) On basis of Contract Prices.
(B) Item No. 10 Statement No. 4 attached.
(C) On basis of Taxable Net Income.
(D) Item No. 17 Statement No. 4 attached.

Lusk then takes the original cost of the property of the Denver Line, including contracts, and using the same principles of apportionment derived in Exhibit 316, Title 35 supra, he apportions the cost year by year between resale and direct sale gas. His method is illustrated by that for January 1, 1939 contained in Statement 4 of his Exhibit 320 as follows:

Colorado Interstate Gas Company Statement No. 4.
Apportioned Original Cost of Denver Line Property Between Resale and Direct Sale Gas
As of January 1, 1939

Item No.	Description	Basis of Apportionment Exh. No. 316 Statement No.	Amount to be Apportioned Per Exhibit No. 76	Apportionment of Original Cost — To Resale Gas — Per Cent	Apportionment of Original Cost — To Resale Gas — Amount	Apportionment of Original Cost — To Direct Sale Gas — Per Cent	Apportionment of Original Cost — To Direct Sale Gas — Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Transmission Lines	11C	$ 9,765,138	82.51%	$ 8,057,215	17.49%	$ 1,707,923
2	Maintenance Camps, etc.	11C	82,699	82.51	68,235	17.49	14,464
	Compressor Stations:						
3	Clayton	12B	574,522	72.8	418,252	27.2	156,270
4	Canyon	12B	752,529	72.8	547,841	27.2	204,688
5	Devine	12B	424,080	94.4	400,332	5.6	23,748
6	Measuring Stations	Exh. No. 164	169,696	76.61	130,005	23.39	39,691
7	Total Operating Systems		$11,768,664	81.76%	$ 9,621,880	18.24%	$ 2,146,784
8	Telephone System	Item No. 7	152,820	81.76%	$ 124,946	18.24%	$ 27,874
9	Other General Property	Item No. 7	131,162	81.76	107,238	18.24	23,924
10	Total		$12,052,646	81.76%	$ 9,854,064	18.24%	$ 2,198,582
11	Cost of Gas Purchase Contract	(A)	$ 1,102,000	52.78%	$ 581,600	47.22%	$ 520,400
	Cost of Gas Sales Contracts:						
12	P.S. of Colorado and Pueblo F. & S. Co.	(B)	352,941	100.0	352,941		
13	City of Colorado Springs	(C)	236,667	78.46	185,689	21.54	50,978
14	Total Original Cost of property		$13,744,254	79.85%	$10,974,294	20.15%	$ 2,769,960
	Working Capital:						
15	Expense Items	(D)	$ 67,400	78.28%	$ 52,761	21.72%	$ 14,639
16	Materials and Supplies	Item No. 10	52,600	81.76	43,006	18.24	9,594
17	Total Original Cost Rate Base		$13,864,254	79.85%	$11,070,061	20.15%	$ 2,794,193

Notes: (A) On basis gas purchased for resale and Direct Sales.
(B) All Resale.
(C) On basis of revenues received from sale of gas.
(D) On basis of item No. 12 of Statement No. 3 attached.

5

He states as to apportionment of depreciation and amortization:

> "In Exhibits Nos. 170 and 170-B the earnings remaining after the deduction of an amount required for an 8 per cent return were designated as available for depreciation and amortization. No provision was made for replacing any property. Depreciation or amortization is similarly derived herein as being the net earnings available for depreciation and amortization after providing for an amount required for an 8 per cent return. No apportionment of Depreciation or Amortization is required on that basis, and the remaining amount is obtained by simple differences of other apportioned amounts and the contract revenues, from resale and direct sale gas." (Exhibit 320, pp. 1 and 2.)

As to apportionment of return, he states:

> "Return is appropriately apportioned to each class of business pro rata with the total amount of property so apportioned, namely, the property ratio as described in the apportionment exhibit." (Exhibit 320, p. 2.)

And as to the apportionment of state and Federal taxes, he states:

> "The total amount of Federal taxes as determined and set forth herein arises from all classes of business of Colorado Interstate Gas Company. The amounts of these taxes are appropriately apportioned to each class of business in proportion to the respective taxable net incomes arising from each class of business.
>
> "State income taxes are similarly appropriately apportioned to each class of business in proportion to the respective taxable incomes arising from each class of business." (Exhibit 320, p. 2.)

Applying these methods for each of the years 1928 to 1947 inclusive, as illustrated by his computations for 1939, he derived an apportionment of all items of income, expense and property for each of said years and set them forth in Statement 2, Exhibit 320. These results are summarized in his Statement 1 as follows:

Colorado Interstate Gas Company

Apportioned Net Operating Earnings Applicable to Depreciation, Amortization and Return Between Resale and Direct Sale Gas Deliveries from the Denver Pipe Line

Computed on Basis of Contracts—Summary 1928 to 1947, Inclusive

Year	Original Cost Rate Base		Net Earnings Available for Return Depreciation and Amortization		Amount Required for an 8 Per Cent Return		Net Earnings Available for Depreciation and Amortization	
	Resale	Direct Sale	Resale	Direct Sale	Resale	Direct Sale	Resale	Direct Sale
(1)	(2)	(3)	(5)	(6)	(8)	(9)	(11)	(12)
1928 (A)	$ 8,422,775	$2,527,270 (B)	$ 233,875	$205,266	$393,060 (B)	$117,939 (B)	$—159,185	$ 87,327
1929	8,626,902	2,587,846	825,332	593,571	690,152	207,028	135,180	386,543
1930	9,274,731	2,546,648	861,164	344,761	741,978	203,732	119,186	141,029
1931	10,056,818	2,502,909	984,179	221,412	804,545	200,233	179,634	21,179
1932	10,379,029	2,735,908	1,196,501	235,829	830,322	218,873	366,179	16,956
1933	10,608,166	2,641,597	850,522	330,868	848,653	211,328	1,869	119,540
1934	10,450,451	2,782,094	885,418	360,534	836,036	222,568	49,382	137,966
1935	10,503,188	2,816,976	1,114,392	430,830	840,255	225,358	304,137	205,472
1936	10,423,519	3,064,886	1,321,142	712,556	833,881	245,191	487,261	467,365
1937	10,606.701	2,936,153	1,520,942	676,465	848,536	234,892	672,406	441,573
1938	11,183,737	2,531,382	1,400,518	504,069	894,699	202,527	505,819	301,542
1939	11,070,061	2,794,193	1,430,946	678,904	885,605	223,535	545,341	455,369

1940	11,077,574	2,822,176	1,458,662	524,653	886,206	225,774	572,456	298,879
1941	11,345,932	2,672,554	1,539,350	601,173	907,675	213,804	631,675	387,369
1942	11,400,284	2,626,202	1,603,211	603,592	912,023	210,096	691,188	393,496
1943	11,655,120	2,593,692	1,646,273	572,687	932,410	207,495	713,863	365,192
1944	11,694,513	2,555,299	1,714,746	570,909	935,561	204,424	779,185	366,485
1945	11,735,032	2,516,780	1,778,122	566,409	938,803	201,342	839,319	365,067
1946	11,735,833	2,516,979	1,741,705	566,839	938,867	201,358	802,838	355,481
1947	12,210,637	2,941,175	1,669,822	474,833	976,851	235,294	692,971	239,539
Total							$8,930,704	$5,553,369

Note: (A) 7 Months.

(B) Apportioned on basis of January 1, 1929 property ratio.
Columns 4, 7, 10 and 13, showing totals, are omitted to save space. Column 4 shows totals by years of figures contained in Columns 2 and 3, and Columns 7, 10 and 13 show the totals by years of the two preceding columns in each case.

Lusk then compares Column 2 of Statement 1, showing the original cost rate base year by year and ending with the accumulated amount of $12,210,637 for 1947, with Column 11 showing the net earnings available for depreciation and amortization for each year and totaling for the whole period $8,930,704, and states:

> "It is seen that the amount available for depreciation and amortization from resale gas sales (after allowing for return) of $8,930,704, is not sufficient to fully cover the apportioned original cost at January 1, 1947 of $12,082,252 ($12,210,637) apportioned to that class of business, within the 19½ year period designated. That the total available for depreciation and amortization is as large as shown, is attributable solely to the fact that as previously mentioned that direct sale gas has been charged with a portion of the base operating costs required for resale gas alone, thereby increasing the revenues from resale gas." (Exhibit 320, p. 9.)

Under present rates Lusk estimates that there will be in January 1, 1947 a deficit in the amount necessary to depreciate and amortize the property of $3,279,933, being the difference between $12,210,637 and $8,930,704 (Statement 1, Exhibit 320).

The deficit or deficiency in this amount is arrived at on the following assumptions:

> First, that the present prices or rates for gas will continue and that the revenues of the company will hold up as shown in Exhibits 56 and 43 as abstracted under Title 15 supra.
>
> Second, that the cost of gas as shown by Exhibit 318 as abstracted under Title 36 supra, will remain the same.
>
> Third, that other operating expenses and operating taxes as shown by Exhibits 76 and 135 abstracted under Title 23, and which are the same as shown in Exhibit 285 supra, will not increase over the estimates therein made.
>
> Fourth, that the Federal and state income taxes and capital stock taxes based on present laws (1940) and as

abstracted and computed herein, will not be increased (Vol. XLVIII, p. 6620).

On being cross-examined with respect to Exhibit 320 and the related Exhibits 317, 318 and 319, he stated that such exhibits were not contrary to the previous exhibits which compared costs and revenues from all gas with costs and revenues applicable to a Denver Line for resale gas only, but that they presented a "different method of apportionment" which showed different results.

"Q. Then, which of the two are you relying upon?

"A. For the purpose of this hearing and for the purpose of showing factual data we rely upon both." (Vol. CII, p. 15998.)

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39. Colorado Interstate's Estimated Revenues of Colorado Interstate from the Denver Line Determined on a Regulatory Basis and Under the Assumption That the Supply of and Markets for Gas Continue Beyond 1948, the End of the Project Term, and Until the End of 1956, Apportioned Between Resale Gas and Direct Sale Gas on the Basis of Priority Use of Facilities.

In Exhibit 319 (Vol. CII, p. 15971) the witness Lusk presents for the respondent the data showing the facts stated in the caption. In this exhibit he also takes the methods of cost apportionment described in Exhibit 316, abstracted under Title 35 supra, and applies them to the total required revenue on a regulatory rate basis of Colorado Interstate from all gas sold to all customers and thereby apportions such revenue as between resale and direct sale gas. As to the cost of gas at Clayton, he uses the cost determined in Exhibit 317, abstracted under Title 37 supra.

He then takes the revenues, expenses and net operating earnings applicable to all gas sold to all customers, as shown in Exhibit 285 and related exhibits, all of which have been abstracted supra, and by application of the principles of apportionment contained in Exhibit 316, Title 35 supra, he apportions them between the resale and direct sale gas year by year. His method is illustrated by the computation for the year 1939 included as Statement 3 in this Exhibit 319 as follows:

Colorado Interstate Gas Company

Apportioned Required Revenues and Expenses of the Denver Line Between Resale and Direct Sale Gas
Year 1939

Item No.	Description	Basis of Apportionment Exh. No. 316 Statement No.	Apportionment of Annual Costs and Expenses: Total to be Apportioned	To Resale Gas: Per Cent	To Resale Gas: Amount	To Direct Sale Gas: Per Cent	To Direct Sale Gas: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Operating Costs and Expenses (Ex. No. 135)						
1	Transmission Lines	11C	$ 109,138	82.51%	$ 90,050	17.49%	$ 19,988
2	Compresser Stations						
3	Clayton	12B	36,163	72.80	26,327	27.20	9,836
4	Canyon	12B	50,619	72.80	36,851	27.20	13,768
5	Devine	12B	28,864	94.40	27,248	5.60	1,616
6	Meters and Metering	Page 29	49,236	60.00	29,542	40.00	19,694
7	Total Operating System		$ 274,020	76.64%	$ 210,018	23.36%	$ 64,002
8	Telephone System	Item No. 7	10,225	76.64	7,836	23.36	2,389
9	General Expense and Land Dept.	Item No. 7	88,623	76.64	67,921	23.36	20,702
10	Rate Case Expense	Item No. 7	43,000	76.64	32,955	23.36	10,045
11	Revenues from Rents, etc.	Item No. 7	—8,787	76.64	—6,734	23.36	—2,053

12 Total Net Operating Expenses		$ 407,081	76.64%	$ 311,996	23.36%	$ 95,085
13 Operating Taxes	4(A)	192,101	81.83	157,196	18.17	34,905
14 Total Operating Expense and Taxes		$ 599,182	78.31%	$ 469,192	21.69%	$ 129,990
15 Cost of Gas at Clayton (Exhibit No. 317)		1,366,418		920,265		446,153
16 Amortization Charges	4(B)	576,253C	80.44	463,538	19.56	112,715
17 Total Costs before Income Taxes		$2,541,853		$1,852,995		$ 688,858
18 Federal and State Income and Capital Stock Taxes	(D)	311,099	59.87	186,255	40.13	124,844
19 Return on Investment at 8 per cent	4(E)	990,902	80.43	796,993	19.57	193,909
20 Required Revenue		$3,843,854		$2,836,243		$1,007,611

Notes: (A) Statement No. 4 attached, Item No. 11.
(B) Statement No. 4 attached, Item No. 15.
(C) As in Exhibit No. 285 less $24,119 apportioned to Chicago Gas.
(D) On Basis of Taxable Net Incomes.
(E) Statement No. 4 attached, Item No. 18.

Lusk then takes the depleted original cost (Exhibit 285 abstracted supra) and the cost of contracts as depleted or amortized, and as abstracted supra, and apportions on the basis developed in Exhibit 316, abstracted under Title 35 supra, such cost as between resale gas and direct sale gas for each year. His method is illustrated by that for January 1, 1939 contained in Statement 4 in this Exhibit 319 as follows:

Colorado Interstate Gas Company

Apportioned Depreciated Original Cost Rate Base Between Resale Gas and Direct Sale Gas

January 1, 1939

Item No.	Description	Basis of Apportionment Exh. No. 316 Statement No.	Total to be Apportioned (Exh. No. 285)	Apportionment of Depreciated Original Cost: To Resale Gas		To Direct Sale Gas	
				Per Cent	Amount	Per Cent	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Transmission Lines	11C	$ 9,301,573	82.51%	$7,674,728	17.49%	$1,626,845
2	Maintenance Camps, etc.	11C	67,726	82.51	55,881	17.49	11,845
	Compressor Stations and Camps at Stations:						
3	Clayton	12B	506,405	72.80	368,663	27.20	137,742
4	Canyon	12B	663,980	72.80	483,377	27.20	180,603
5	Devine	12B	374,244	94.40	353,286	5.60	20,958
6	Total Camp Stations		$ 1,544,629	78.03%	$1,205,326	21.97%	$ 339,303
7	Measuring Stations	(B)	153,306		120,332		32,974
8	Total Operating Departments		$11,067,234	81.83%	$9,056,267	18.17%	$2,010,967
9	Telephone System	Item No. 8	129,084	81.83	105,629	18.17	23,455
10	Other General Property	Item No. 8	92,737	81.83	75,887	18.17	16,850
11	Total		$11,289,055	81.83%	$9,237,783	18.17%	$2,051,272
12	Gas Purchase Contract	(E)	677,620A	52.78	357,626	47.22	319,994
	Gas Sales Contracts						
13	P.S.C. of Colo. & Pueblo G. & F. Co.	Page 35	167,649	100.00	167,649	....	....
14	City of Colo. Springs	(C)	131,949	78.46	103,527	21.54	28,422
15	Total		$12,266,273	80.44%	$9,866,585	19.56%	$2,399,688
	Working Capital—						
16	Material and Supplies	Item No. 11	52,600	81.83	43,043	18.17	9,557
17	Operating Expense and Cash	3(D)	67,400	78.31	52,781	21.69	14,619
18	Total		$12,386,273A	80.43%	$9,962,409	19.57%	$2,423,864

Notes: (A) As shown in Exhibit No. 285, exclusive of $552,180 Value of Gas Purchase Contract apportioned to Chicago gas.

(B) To Resale Gas as used in Exhibit No. 286.

(C) On basis of Revenues from Gas Sales to Colorado Springs.

(D) Statement No. 3 attached, Item No. 14.

(E) On basis of Volumes of Gas sold from Denver Line by C.I.G. Co.

As to amortization or depreciation, he referred to Exhibit 285 where a sinking fund method was described. He stated that no provision was made for replacing any property except facilities such as automobiles and trucks. He then concludes that the amortization or depreciation costs applicable to the property are appropriately apportioned pro rata with the apportionment of the property itself (Exhibit 319, p. 1).

As to return he states that that is appropriately apportioned to each class of business pro rata with the total amount of property so apportioned; that is, the property ratio as described in the apportionment exhibit (Exhibit 319, p. 2).

As to the apportionment of Federal and state taxes, he states:

> "The total amount of Federal taxes as set forth herein arises from all classes of business of Colorado Interstate Gas Company. The amounts of these taxes are appropriately apportioned to each class of business in proportion to the respective taxable net incomes arising from each class of business.
>
> "State income taxes are similarly appropriately apportioned to each class of business in proportion to the respective taxable incomes arising from each class of business." (Exhibit 319, p. 2.)

Applying these methods for each of the years 1939 to 1947 inclusive, as illustrated by his computation for 1939, he derived an apportionment of all items of income, expense and property for each of said years and set them forth in Statement 2, Exhibit 319. These results are summarized in his Statement 1, as follows:

Colorado Interstate Gas Company.

Apportioned Revenues Required from Denver Line Gas on a Regulatory Rate Basis (A) Between Resale Gas and Direct Sale Gas.

Summary and Comparison with Contract, 1939 to 1947, Inclusive.

Year	Revenues at Contract Prices (B)			Apportioned Revenues Required for an 8 Per Cent Return (C)			Contract Revenues in Addition to Apportioned Revenues Required for 8 Per Cent Return		
	Resale	Direct Sale	Total	Resale	Direct Sale	Total	Resale	Direct Sale	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1939	$ 2,938,383	$ 1,370,849	$ 4,309,232	$ 2,836,243	$ 1,007,611	$ 3,843,854	$ 102,140	$ 363,238	$ 465,378
1940	3,202,643	1,276,525	4,479,168	3,084,785	1,087,578	4,172,363	117,858	188,947	306,805
1941	3,424,257	1,389,266	4,813,523	3,259,127	1,106,278	4,365,405	165,130	282,988	448,118
1942	3,566,052	1,392,016	4,958,068	3,346,599	1,102,936	4,449,535	219,453	289,080	508,533
1943	3,693,267	1,340,566	5,033,833	3,482,033	1,086,312	4,568,345	211,234	254,254	465,488
1944	3,827,743	1,343,316	5,171,059	3,577,064	1,092,036	4,669,100	250,679	251,280	501,959
1945	3,982,174	1,346,066	5,328,240	3,696,350	1,099,507	4,795,857	285,824	246,559	532,383
1946	3,982,174	1,346,066	5,328,240	3,763,590	1,121,275	4,884,865	218,584	224,791	443,375
1947	3,982,174	1,346,066	5,328,240	4,061,204	1,350,446	5,411,650	—79,030(D)	—4,380(D)	—83,410(D)
Total......	$32,598,867	$12,150,736	$44,749,603	$31,106,995	$10,053,979	$41,160,974	$1,491,872	$2,096,757	$3,588,629

Note: (A) Includes an 8 per cent return on a depreciated original cost rate base at January 1, 1939, plus additions thereafter at cost, and provision for depreciation and amortization by a sinking fund method with compound interest at a rate of 2¾ per cent per annum.

(B) From Exhibit No. 56, by W. R. Beardsley.

(C) From Statement No. 2 attached.

(D) Deficiency of Contract Revenues.

After comparing the revenues estimated to 1947 on the basis of present contracts with those derived by this method of apportionment, he stated:

"The above additional revenues from resale gas of about $166,000 annually arises from (A) charging direct sale gas with

A Portion of Base Operating Costs required for resale gas alone, as previously mentioned $512,777

And (B) An actual Deficiency in Resale Gas Revenues to meet its base operating costs as shown in Exhibit No. 286 .... $347,014

(C) which results in Revenues, on the basis of the Apportionment used herein, in addition to the revenues on Contract prices of .... $165,763"

This balance in this amount depends on the following assumptions:

First, that the present prices or rates for gas will continue and that the revenues of the company will hold up as shown in Exhibits 56 and 43 as abstracted under Title 15 supra.

Second, that the cost of gas as shown by Exhibit 317 as abstracted under Title 37 supra, will remain the same.

Third, that other operating expenses and operating taxes as shown by Exhibits 76 and 135 as abstracted under Title 23 and which are the same as shown in Exhibit 285 supra, will not increase over the estimates therein made.

Fourth, that the Federal and state income taxes and capital stock taxes based on present laws (1940) and as abstracted and computed herein, will not be increased (Vol. XLVIII, p. 6620).

Fifth, that the company can remain in business and be able to use its property beyond 1948 and until the end of 1956, and that, accordingly, annual depreciation

and amortization expense will not have to be increased so as to retire or recover said property or the investment therein by 1948 instead of 1956.

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40. **Colorado Interstate's Estimated Revenues of Colorado Interstate from the Denver Line, 1939 to 1947 Inclusive, Determined on a Regulatory Basis and Under the Assumption That Supply of and Markets for Gas Continue Beyond 1948, the End of the Project Term, and Until the End of 1956, Based on Market Value of Gas at Bivins, Plus Transmission Cost to Clayton Junction.**

Evidence as to the facts stated in the caption is contained in Exhibit 321 (witness Lusk, Vol. CII, p. 16011). Statement 2 of this exhibit reflects the market value of natural gas in its natural state at Bivins in the amount of 7c per Mcf. The testimony of the witness Ford (Vol. XC, p. 13676-682), and the other evidence showing this market price, is abstracted in Canadian's brief and adopted by this respondent. Statement 2 of Exhibit 321 also reflects the transmission cost of such gas between Bivins and Clayton and the evidence on that subject is also abstracted in Canadian's brief and adopted by this respondent. The total cost of gas for each of the years to this respondent at Clayton is summarized as follows:

1939	$1,891,022	1944	$2,355,481
1940	2,043,286	1945	2,415,251
1941	2,176,464	1946	2,447,015
1942	2,211,063	1947	2,486,168
1943	2,293,108		

Based on the foregoing costs of Gas, Statement 3 of Exhibit 321 shows the following revenues required by Colorado Interstate for the years 1939 to 1947 inclusive:

Colorado Interstate Gas Company.

Required Revenues on a Regulatory Rate Basis from All Gas Sales from the Denver Line Based on a Cost of Gas at Clayton Junction Resulting from a Price of Gas at Bivins Intake of 7c per Mcf. (16.4 lb.).

1939 to 1947, Inclusive.

Item No.	Description	1939	1940	1941	1942	1943	1944	1945	1946	1947
1	Cost of Gas at Clayton Junction	$1,891,022	$2,043,286	$2,176,464	$2,211,063	$2,293,108	$2,355,481	$2,415,251	$2,447,015	$2,486,168
2	Operating Expenses and Taxes Exhibit No. 285; Statement 2	599,182	612,300	634,700	646,800	680,100	649,200	661,500	674,200	685,500
3	Income and Capital Stock Taxes (A)	219,040	309,733	360,721	391,825	386,656	421,918	451,806	463,990	449,100
4	Total Operating Expenses & Taxes	$2,709,244	$2,965,319	$3,171,885	$3,249,688	$3,359,864	$3,426,599	$3,528,557	$3,585,205	$3,620,768
5	Depreciation and Amortization (A)	576,253	576,253	576,253	576,253	576,253	576,253	576,253	576,253	600,372
6	Amount Required for 8 Per Cent Return (A)	990,902	993,742	1,003,241	1,003,881	1,021,667	1,021,747	1,021,907	1,021,987	1,066,241
7	Total Revenues Required	$4,276,399	$4,535,314	$4,751,379	$4,829,822	$4,957,784	$5,024,599	$5,126,717	$5,183,445	$5,287,381

Note: (A) Denver Line only after Apportionment of a part of Gas Purchase Contract to Chicago Gas Exhibit No. 318.

Statement 1 of Exhibit 321 then makes a comparison between the foregoing required revenues and the revenues now being received under present prices or rates, as follows:

Colorado Interstate Gas Co.

Comparison of Contract Revenues from All Gas with Required Revenues Based on 7c Cost of Gas at Bivins Suction and 8 Per Cent Return on All Gas.

1939 to 1947, Inclusive.

Year	Contract Revenues Exhibit No. 285 Statement 1	Revenues Required 7c Gas-8% Return	Contract Revenues Additional + Deficiency —
(1)	(2)	(3)	(4)
1939	$ 4,309,232	$ 4,276,399	$+ 32,833
1940	4,479,168	4,535,314	— 56,146
1941	4,813,523	4,751,379	+ 62,144
1942	4,958,068	4,829,822	+128,246
1943	5,033,833	4,957,784	+ 76,049
1944	5,171,059	5,024,599	+146,460
1945	5,328,240	5,126,717	+201,523
1946	5,328,240	5,183,445	+144,795
1947	5,328,240	5,287,381	+ 40,859
Total	$44,749,603	$43,972,840	$+776,763
Yearly Average			$ 86,307

The average yearly balance of $86,307 developed by this method or test depends upon the following assumptions:

First, that the present prices or rates for the gas will continue and that the revenues of the company will hold up as shown in Exhibits 56 and 43 and as abstracted under Title 15 supra.

Second that the cost of gas as shown in Statement 2 of Exhibit 321 will obtain.

Third, that the operating expenses and operating taxes as shown by Exhibits 76 and 135, and as abstracted under Title 23 and which are the same as those shown in Exhibit 285, will not increase over the estimates therein made.

Fourth, that the Federal and state income taxes and capital stock taxes based on present laws (1940) and as computed thereon will not be increased (Vol. XLVIII, p. 6620).

Fifth, that the company can remain in business and be able to use its property beyond 1948 and until the end of 1956, and that, accordingly, annual depreciation and amortization expense will not have to be increased so as to retire or recover said property or the investment therein by 1948 instead of 1956.

Further Testimony of the Company's Witness, Lusk.

Q. Mr. Lusk, the four exhibits that have just been identified as Exhibits Nos. 317, 318, 319 and 320 were prepared by you, were they not?

A. All of the exhibits were prepared under my direction.

Q. Under your direction and supervision?

A. Yes, sir.

Q. And all four of those exhibits are predicated upon the method of apportioning costs to the producing and gathering facilities of Canadian River Gas Company and the Denver Line between resale gas and direct sale gas, 1928 to 1947, inclusive, as set forth in the Exhibit No. 316 prepared and submitted in evidence in this case by Mr. Rhodes?

A. The apportionment factors in Mr. Rhodes' Exhibit No. 316 were used in apportioning the costs which were taken from other exhibits.

Q. Then, Mr. Lusk, in addition to the use which you made of Mr. Rhodes' figures, what figures did you supply?

A. The only figures that I supplied was in the case of Exhibit No. 317. The Canadian River Gas Company costs of operation as shown in the written statement on page 1 are taken from Exhibit No. 276.

Q. That was your Exhibit No. 276, was it not?

A. Yes, sir.

Q. And the apportionment of amortization was taken from Exhibit No. 276?

A. Yes, sir.

Q. Was the apportionment of return computed by you?

A. Yes, sir.

Q. Upon what basis?

A. Return was computed upon the basis of Mr. Rhodes' determination of the various factors entering into the determination of resale and direct sale gas on a property basis.

Q. And the apportionment of Federal taxes was made by you?

A. Yes, sir. That is a recomputation.

Q. That relates to your Exhibit No. 276?

A. Yes, sir. The total amount of income taxes in Exhibit No. 276 is the same; that is, for both resale and direct sale gas. Those figures in the apportionment of the taxes between resale and direct sale gas are based upon Mr. Rhodes' apportionment.

Q. Are those the only items that you supplied over and above the figures that Mr. Rhodes set forth in his exhibit?

A. Yes, sir. There are three items that Mr. Rhodes did not touch upon—the return to be enjoyed under the resale gas and the direct sale gas, under the apportionment he makes, and the Federal income taxes, and the amortization and depreciation.

Q. In that Exhibit No. 317 where do you set forth the investment or the determination of the company's original cost figures upon which you predicate the return?

A. That is on statement 6 of Exhibit No. 317 for production and on statement 7 of the gathering statement, and statement No. 8 of the transmission system, including the gasoline plant and the compressor system.

Q. Are those figures that are set forth the same as those which you utilized previously?

A. Yes, sir. At the head of statement 6 you will find "Total to be apportioned Exhibit 276".

Q. It is taken from that Exhibit No. 276?

A. Yes, sir.

Q. And similarly on Statement 7.

A. Yes.

Q. And on Statement 8?

A. Yes, sir.

Q. And the operating expenses that are utilized by you are taken from your previous exhibit?

A Yes, sir.

Q. Where is that taken from?

A. That is taken also from Exhibit No. 276, Statements 3, 4 and 5. Statement 3 is the production system, and column 3 shows the total to be apportioned in Exhibit No. 276, Statement No. 2; the gathering system, statement No. 4, total to be apportioned in Exhibit No. 276, statement 3; the transmission system, including gasoline plant and the compressing station on Statement 5, as taken from Exhibit No. 276, Statement 4.

Q. Turning to the last page of your written statement in Exhibit No. 317, Mr. Lusk, will you please explain briefly what you had in mind in the last column, headed "Reduction due to apportioning of part of base cost of resale gas to direct sale gas"?

A. On the basis of Mr. Rhodes' apportionment, as shown in Exhibit No. 316, as applied to Exhibit No. 276, covering the operating expenses of the Canadian River Gas Company and the rate of return on the property of the Canadian River Gas Company and all of the Federal income taxes and the amortization and the depreciation under the regulatory rate basis, page 6 of Exhibit No. 317 indicates that the required revenues of Exhibit No. 277, Statement No. 1, were in excess for the years in question, 1939 to 1947, by the amounts shown in column 3. In other words, the apportionment exhibit reduces the required revenues shown in Exhibit No. 277 by the amounts shown in Column 3, which indicates that the average from 1939 to 1947 was $239,000, as shown in the last paragraph of page 6.

Q. In excess of the apportioned required revenues under the method of apportioning in Exhibit No. 277?

A. Yes, sir.

Q. At what rate? Is that 8 per cent?

A. Yes, sir.

Q. And on Statement No. 1 of the Exhibit in Note A you have the recitation that this includes an allowance of 8 per cent return on a depleted and depreciated original cost rate base at January 1, 1939. That is the original cost rate base as computed by you in your exhibit?

A. That is computed by Mr. Roberts in his exhibit.

Q. What exhibit of Mr. Roberts is that?

A. I believe that is Exhibit No. 272. Well, they are exhibits 272 and 273.

Q. The other Canadian River Gas Company exhibit is Exhibit No. 318 and is computed on the basis of taking into consideration the provisions of the contract?

A. That is computed under the contract. The only difference between Exhibits 318 and 317 is that in exhibit No. 317 there is an 8 per cent return used and the sinking fund method of depreciation, and in Exhibit 318 the amortization of the debt is taken into consideration instead of the amortization of the property.

Q. Is that referred to on the second to the last page of your written statement in Exhibit No. 318? Are the first column figures the amount required under the contract?

A. No. In Exhibit No. 167 the resale gas is shown for the years 1928 through to 1947 in the first column and in the apportionment exhibit, that is, this Exhibit No. 318, is shown in the second column, and the reduction due to the apportionment of part of the resale gas, Exhibit No. 318, is shown in column 3: There, again, the apportionment exhibit, following Mr. Rhodes' Exhibit No. 316, indicates that in the years 1928 to 1947 there will be approximately $155,000 annual difference or excess between the cost of gas as stated in Exhibit No. 167 and the apportionment cost of gas under this exhibit No. 318.

Q. I notice in the sentence beginning at the bottom of that page, the second to the last of your written statement in Exhibit No. 318, you say:

"In that way direct sale gas, under the apportionment method used herein, bears a portion of the base cost of operation required for resale gas alone, in addition to its own incremental costs."

Were you there employing the method set forth by Mr. Rhodes in his exhibit?"

A. Yes, sir. And the significance of the last sentence, "In that way direct sale gas" is that in a prior exhibit under the resale gas alone, the line designed for resale gas alone was primarily the base cost. Under this exhibit the direct sale would bear an addition to its incremental cost.

Q. In that respect this exhibit is contrary to the previous exhibit that you set up covering these costs?

A. No; I would not say that it is contrary. It is a different method of apportionment.

Q. And, of course, it shows different results?

A. It shows a different result.

Q. Then, which of the two are you relying upon?

A. For the purpose of this hearing and for the purpose of showing factual data we rely upon both.

Q. Although they do not show the same results?

A. No; they do not show the same results. The annual average, so far as resale gas alone is concerned, as indicated on page 7, is approximately $155,000 a year reduction in resale and consequent addition to the cost of direct sale gas.

Q. What was that comparable amount in your previous exhibit?

A. On page 7 of Exhibit No. 318, in Statement 167, the estimated cost of resale gas alone averaged $1,060,000 per year, and under Mr. Rhodes' method of apportionment the resale gas delivered at Clayton Junction averaged $905,000 a year.

Q. $904,809?

A. Yes. I was reading round figures.

Q. As shown in column 2?

A. That is correct.

Q. And it gives that average resulting difference of $155,203 per year?

A. Per year?

Q. That is a yearly average?

A. Yes.

Q. As shown on that page?

A. That is correct.

Q. In Exhibit No. 318 you similarly utilized the methods and figures as set forth in previous exhibits, such as on Statement No. 6 of the Exhibit, column 3, leaseholds, and you set up the total original cost as per exhibit No. 183 as $5,361,720?

A. That is correct.

Q. That is as it appears in Exhibit No. 183?

A. Yes, sir.

Q. And similarly as to the gathering?

A. That is correct. The gathering is on statement No. 7.

That is also taken from Exhibit No. 183 and from Exhibit No. 183-A which shows the adjustment.

On the transmission system, including the gasoline plant and the compressor station, that is taken from Exhibit No. 164.

No; pardon me. It is No. 183.

Q. Statement 7?
A. Statement 8.
Q. Statement 8 is your transmission line?
A. That is correct. That is what I was speaking of.
Q. That is taken from Exhibit No. 67?
A. Yes, sir.
Q. And wherever in these exhibits you used the phrase "original cost" you employ it in these exhibits in the same manner as you employed it in your previous exhibits?
A. That is correct.
Q. In this exhibit No. 318 which items do you add to those set forth by Mr. Rhodes in his exhibit No. 316?
A. The only items that I take care of in Exhibit No. 318 are the Federal taxes and the amortization of the debt and the apportionment of the interest.
Q. I don't seem to have the exhibit noted in the blank appearing at page 3 of your written statement, in the center of the page.
A. That should be "exhibit 316".

Mr. Rhodes: A written statement?

Q. That is right. Those are the only items which you have supplied over and above the figures of Mr. Rhodes?
A. Yes, sir; the three items.
Q. Is your method of treatment of those three items the same as that in Exhibit No. 317?
A. Except the interest on the debt and the amortization of the debt and the Federal taxes. The gross sum does not change.
Q. This Exhibit No. 318 carries out the contract terms?
A. That is right.
Q. Of course, in each instance in Exhibits 317 through 320 all figures beyond 1940 are estimates?
A. That is correct.

Q. Is 1940 actual?

A. No; 1940 is an estimate. Everything beyond 1939 is an estimate.

Q. Everything beyond 1939 is an estimate?

A. That is correct.

Q. Exhibit 319 is an exhibit as to Colorado Interstate Gas Company prepared similar to Exhibit 317 for Canadian River Gas Company?

A. Yes, sir. It takes the cost of gas delivered at Clayton, separated between resale and direct sale gas, and carries it through. The only change between Exhibit 319 and the previous exhibit, Nos. 285, is the cost of gas at Clayton and the corresponding change in the computation of Federal income taxes. With the cost of gas either higher or lower it affects the computation of income taxes. Everything else is the same as per exhibit No. 285.

Q. The table on page 5 of Exhibit 319 is one that is similar to that in previous exhibits showing required revenues Exhibit No. 286 and the apportioned revenues required, and then the last column of reduction in revenues?

A. That is correct. So far as resale gas is concerned, on page 5 of the written statement the required revenues in Exhibit No. 286 are set forth in column 1 and the apportioned revenues required for an 8 per cent return based upon Mr. Rhodes' apportionment is shown in column 2. The excess is shown in column 3.

Q. That is the excess over an 8 per cent return?

A. That is correct.

Q. Is that page 7 of your written statement?

A. No; that is page 5. That shows the resale gas.

Q. The figures in the table on page 5 other than the 1939 figures are all estimates, of course?

A. That is correct.

Q. The 1939 basing figures are actual?

A. That is correct.

Q. On page 6 will you please explain that table in the center of the page which shows contract revenues in addition to revenues required for an 8 per cent return?

A. That indicates that for the nine years 1939 to 1947 the revenues required for an 8 per cent return divided into the classes of business show an annual average of \$398,737. From the wording on page 6 showing the sum-

mary, "The contract revenues in addition to these revenues required for an 8 per cent return, for both resale and direct sale gas, shown in columns Nos. 8 to 10 inclusive may be briefly summarized as follows".

Q. Oh yes; there is a table similar to that in the other two exhibits.

A. Yes, sir.

Q. In other words the amount of $165,764 under the last column is the revenue in excess of that under an 8 per cent return?

A. That is correct.

Q. The annual average?

A. Yes; for nine years.

Q. Why is that 1947 estimate a deficit?

A. That is because in 1947 the deliveries to the Natural Gas Pipe Line Company of America has been eliminated, and that makes for a higher cost of gas to the Colorado Interstate Gas Company for deliveries at Clayton.

Q. This elimination for 1947 is carrying forward the same elimination that has appeared in previous exhibits?

A. Yes, sir.

Q. What exhibit was that? Do you recall that?

A. That is Exhibit No. 286 on resale gas and I believe it is Exhibit No. 285 for all gas. It is a combination of exhibits Nos. 285 and 286.

Q. And your investment on which you compute the return is taken from the previous exhibit No. 285, is it?

A. Yes.

Q. Shown in statement 4 on this exhibit?

A. That is right.

Q. In statement 4 under "note A" that refers to item 12.

A. Yes, sir.

Q. As shown in Exhibit No. 285, exclusive of $552,180 value of gas purchase contract apportioned to Chicago gas. What is that?

A. That is approximately 42 per cent of the two million dollars gas purchase contract; that is depleted.

Q. With respect to your exhibit No. 320, that, again, utilizes the contract, as it did in Exhibit 318, Canadian River Gas Company?

A. In so far as it affects the cost of gas delivered at Clayton Junction.

Q. At Clayton Junction?

A. Yes, sir. That is the only change.

Q. In Exhibit No. 320 what items do you supply over and above those which you take from Mr. Rhodes' exhibit No. 316?

A. The depreciation and amortization, return, and Federal and state taxes. Those are the only three items that I treat that Mr. Rhodes does not treat.

Q. Upon what basis do you treat those items?

A. The basic contract, so far as cost of gas is affected of the Canadian River Gas Company, is the amortization of the debt under the contract terms; and the return is taken care of as the basic contract, and the Federal taxes and state income taxes are affected more or less by the change in cost of gas at Clayton.

Q. Then, of course, you apportioned the return between the two classes, resale gas and direct sale gas, which, of course, is not in accordance with the contract. There is no apportionment in the contract.

A. No; there is no distinction between the two classes of gas in the contract itself as such.

Q. How did you treat apportionment of return in your Exhibit No. 330 under the contract?

A. That is 8 per cent.

Q. In your exhibit No. 320 you do not show an apportionment of return or, rather, show the basis of your apportionment of return in your written statement, do you?

A. No, sir. In the written statement it is covered by the paragraph stating that Mr. Rhodes did not treat of a rate of return and Federal income taxes and amortization of debt.

Q. Where is that referred to in your written statement?

A. On page 2 of Exhibit No. 320 in paragraph 3.

Q. Now, Mr. Lusk, will you please turn to Exhibit No. 320, page 6 of your written statement? That is the page on which there is the table. Will you please explain that table?

A. On page 6 of Exhibit No. 320 the first column of the table shows the operating costs and required return as indicated by Exhibits Nos. 172 and 172-A, amounting to an annual average of $2,836,713 over a 20-year period. The apportioned operating cost and required return, statement

No. 2 attached, that is, the required return under the apportionment taken care of in Exhibit No. 320, amounts to $2,438,013, or a reduction in operating costs and required return from resale gas of $398,700.

Q. Annual average?

A. Yes, sir.

Q. In that respect your computation in this exhibit No. 320 differs from your previous exhibit?

A. The annual average difference between this exhibit and exhibits Nos. 172 and 172-A as referred to, resale gas alone, is $398,700.

Q. I notice in your exhibits Nos. 318 and 320 in both instances you set up these comparative tables for a 20-year period, from 1928 through 1947?

A. That is correct.

Q. In your exhibit Nos. 317 and 319 your tables of comparison set forth there are only for the periods 1939 and estimated through 1947?

A. That is correct. In Exhibit 317 and Exhibit 319, the regulatory rate basis period begins on January 1, 1939 and extends through to 1947.

Q. Do any of the figures in any of your four exhibits go beyond 1947?

A. No, sir.

Q. Nor do any of the figures in Mr. Rhodes' Exhibit No. 316 present any estimate beyond 1947?

A. With the exception of the life of the field and the amortization of the Canadian River property carried through to 1956.

Q. Where is that in Mr. Rhodes' exhibit?

A. It is not in Mr. Rhodes' exhibit. But all of these estimates in all of these last exhibits are predicated upon the 1956 termination of the commercial supply of gas.

Q. In the preparation of these four exhibits, Nos. 317, 318, 319 and 320, you made no independent determination of your own as to the purpose that prompted the construction of the Denver Pipe Line, did you?

A. No, sir.

Q. Nor did you relate any of these figures in the four exhibits to the actual facts in connection with operations of the Denver Line in so far as no distinction is made on the company's books as to apportioning resale gas and direct sale gas?

A. No, sir. The company does not atempt to differentiate between resale gas and direct sale gas so far as cost of gas is concerned. They do separate the revenues.

Q. Nor does the contract between Canadian River Gas Company and Colorado Interstate Gas Company have any provision with reference to classifying the operations as between resale and direct sale gas?

A. No specific provisions that I know of.

Q. And there is no provision that you know of in that contract anywhere that attempts to set up the cost of gas on resale as distinguished from cost of direct sale gas?

A. No, sir; none that I know of.

(Vol. CII-(2), pp. 15992-16009.)

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Q. Mr. Lusk, in your cross examination upon questioning by Mr. Lange, I think you said that the basis of all four of these exhibits, Nos. 317, 318, 319, and 320, was the economic life of the field to 1956. I call your attention to the fact that in one of the Canadian River Gas Company exhibits, Exhibit No. 318, it is based upon the contracts that extend to 1948, and also one of the Colorado Interstate Gas Company exhibits, No. 320, is also based upon the contracts that it has, both for the purchase of gas and sale of gas through 1948.

With that in mind, was your answer correct, Mr. Lusk?

A. Yes; I was in error when I mentioned the four exhibits. It should be Exhibits 317 and 319, the two exhibits that refer to the regulatory rate basis only.

Q. Those two exhibits with respect to the economic life of the field being fixed at 1956 have to do with the amounts of amortization that would be required each year for that number of years?

A. That is correct.

Q. And they are analogous to preceding exhibits that related to required revenues on a regulatory basis for all gas and then for resale gas on the Denver line for that resale gas only?

A. That is correct.

Q. Mr. R. A. Ford in his testimony given in the hearing at Denver stated that the fair market price of gas at Bivins would be 7 cents. Have you prepared a brief computation

relating to all gas sold to Colorado Interstate Gas Company by Canadian River Gas Company, showing what difference there would be, if any, using 7 cents as the cost of all gas at Bivins and then adding to that the subsequent required cost for transmission expenses from Bivins up to Clayton, and then the required expenses of the Colorado Interstate Gas Company for all gas delivered from the Denver Line by Colorado Interstate Gas Company?

A. Yes, sir.

Mr. Dougherty: May we have this statement to which Mr. Lusk has just referred marked for identification as Exhibit No. 321?

The Trial Examiner: It will be so marked.

(The document referred to was marked for identification Exhibit No. 321, Witness Lusk.)

By Mr. Dougherty:

Q. Mr. Lusk, you have shown in statement No. 1 of this document which has just been marked for identification as Exhibit No. 321, three columns of figures covering the year 1939 through 1946.

A. Yes, sir.

Q. Will you please explain the significance of those columns, referring, as you need to, to supporting figures on statements 2 and 3?

A. On statement No. 1 of Exhibit No. 321, column 1 shows the contract revenues as indicated by Exhibit No. 285, statement No. 1, as being the revenues from all gas, from 1939 to 1947, inclusive.

Q. Those were the revenues required by Colorado Interstate Gas Company on regulatory basis, including an 8 per cent return?

A. Yes, sir.

Q. I am in error there. I mean those are the revenues shown as being the revenues that would be collected under the contract prices.

A. That is correct.

Q. Which Colorado Interstate Gas Company has?

A. That is correct.

Q. What is your next column, column 3?

A. Column 2, the revenues required with cost of gas at the Bivins intake at 7 cents, as testified to by Mr. R. A.

Ford during the hearings at Denver and with an 8 per cent return, the only difference being the cost of gas at the Bivins intake is computed at 7 cents.

Now, as to column 3—

Q. You are not using the numbers that are shown there. Those have column numbers at the top. Where you used the term "Column 2" it should have been "Column 3," as shown on the exhibit?

A. That is correct.

In column 4 is the addition or deficiency between columns 2 and 3. For the 9-year period it indicates the amount is $776,763, or an average of $86,307 a year plus.

Q. As I understand it, that shows that if you computed the cost of gas at Bivins at 7 cents and then added to that the other corresponding costs that would be required, including an 8 per cent return, the amount so required on that basis is less than the actual amounts that are shown in Exhibit No. 285 as were collected in 1939 and anticipated to be collected in the succeeding years through 1947?

A. That is correct.

Q. So that on that 7-cent basis, in order to get an 8 per cent return there would need be collected only the $776,763 less than the actual estimated as would be collected under the contract prices?

A. That is correct.

Q. You have statements Nos. 2 and 3 that show the detail. Will you please explain those briefly?

A. Statement No. 2, item No. 1, shows the gas deliveries at the Bivins station input as given in Exhibit No. 164, statement No. 10; that is, the m. c. f. beginning in 1939 and extending through 1947.

Line 2 is the cost of gas as testified to by Mr. R. A. Ford at 7 cents, that is, the 7 cents times the m. c. f. which gives the corresponding dollars.

The transmission cost of the Canadian River Gas Company from the Bivins intake north to Clayton Junction is shown by Exhibit No. 276, statement No. 4.

Line 4 shows the total Canadian River Gas Company *deliver* at Clayton Junction with the exception that the total amount is multiplied by 97.70 per cent, which is also shown by Exhibit No. 276, statement No. 4.

The remaining 2.3 per cent is the delivery to the Amarillo Oil Company along the Canadian River transmission line at Dalhart, Texline and Hartley.

Line 6 shows the amount of the 7-cent computed cost after taking into consideration the 97.70 per cent as applied to the Colorado Interstate Gas Company deliveries at Clayton.

Statement 3 carries that cost of gas in as item No. 1, and item No. 2 is the operating expenses and taxes as shown by Exhibit No. 285, statement No. 2.

The income and capital stock taxes have been recomputed on the 7-cent cost of gas basis.

Line 4 on statement 3 shows the total operating expenses and taxes.

Line 5 shows the depreciation and amortization, which does not change from the old exhibit, after apportioning the part of the gas purchase contract to Chicago gas.

Line 6 is the amount required for an 8 per cent return.

Line 7 shows the total revenues required as brought forward to statement No. 1.

Q. This note "A" on statement 3 refers to an exhibit which has not been filled in. What should that be?

A. That is one of these last exhibits, that is Exhibit No. 319.

Q. Then that reference to the exhibit number in note "A" on statement No. 3 should be "Exhibit 319."

A. That is correct.

Q. That is, the various figures shown opposite line 6 can be found in Exhibit No. 319?

A. That is correct.

Mr. Dougherty: That is all.

Recross Examination.

By Mr. Lange:

Q. The 7 cents per m. c. f. set forth as the proposed or estimated cost of gas in your Exhibit 321 is, of course, not actual. Isn't that a figure that Mr. Ford testified to as being, in his opinion, the market value of gas?

A. That is correct.

Q. Neither the Colorado Interstate Gas Company nor the Canadian River Gas Company is paying 7 cents per m.c.f. for any gas?

A. No, sir. They do not purchase any gas, that is, Canadian River Gas Company does not. Colorado Interstate purchases from Canadian River Gas Company.

Q. But this exhibit is being sponsored by Colorado Interstate Gas Company?

A. Yes, sir.

Q. And any reference to a 7-cent figure, particularly on statement 2, item 2, reading "Cost of gas 7 cents per m. c. f." is purely an estimated figure?

A. That is taken directly from Mr. Ford's testimony as to what he contends is the market value of gas at the Bivins intake.

Q. So using the word "cost" in item 2 is different from the word "cost" in the item below item 4; for instance, "cost of gas to C. R. G. Co. at Clayton Junction," that is not predicated upon any estimated 7 cents per m. c. f., is it?

A. It is predicated upon Mr. Ford's testimony as to the market price of gas at Bivins in statement No. 2.

Q. In other words, what it would be if a 7-cents per m. c. f. figure were applied?

A. That is correct.

Q. Going back to statement No. 1 of Exhibit No. 321, the table there sets forth in column 1 contract revenues and revenues required upon an 8 per cent return, applying the 7 cents figure. And in the fourth column wherever a plus figure appears preceding each of those items, does that indicate that that is the amount of revenue returns in excess of an 8 per cent return?

A. Over and above the required revenues as estimated under column 3 of statement No. 1.

Q. And when a minus sign appears—And there is only one in 1940—it shows the deficiency?

A. That is correct.

Q. Of course, that is estimated?

A. 1940 is estimated.

Q. And 1939, the basic, is actual?

A. It is actual on statement No. 1, column 2.

Q. And, of course, all of the subsequent ones are estimated?

A. That is correct.

Q. And that tabulation on statement No. 1 shows a yearly average figure of $86,307?

A. Yes.

Q. That is a plus figure?

A. Yes, sir.

Q. As to statement No. 2 of the exhibit, how did you arrive at the percentages constituting item No. 5?

A. They are taken from exhibit No. 276, statement 4. That is based upon straight m. c. f. allocation.

Q. The differences between 100 per cent and those percentages here shown are made up by loss of gas?

A. They are line deliveries to Dalhart, Texline and Hartley. They are line deliveries after the gas leaves Bivins discharge, before it reaches Clayton Junction for delivery to Colorado Interstate Gas Company. There are line deliveries to Dalhart, Texline and Hartley.

Q. Then I was mistaken. The difference in percentage does not indicate line loss?

A. No.

Q. But actual deliveries?

A. Actual deliveries.

Q. As to statement No. 3 of the exhibit, item No. 1, cost of gas at Clayton Junction in each of the years, that again contemplates the application of the 7 cents per m. c. f.?

A. That is correct. It is taken directly from statement No. 2 of the same exhibit.

Q. As you have stated, Canadian River Gas Company is not, in fact, paying the 7 cents per m. c. f. for any of its gas.

A. Canadian River does not purchase any gas at all.

Q. And, so far as you know, does not contemplate purchasing any gas?

A. Not that I know of. I do not think they contemplate purchasing any gas.

Mr. Lange: That is all.

Redirect Examination.

By Mr. Dougherty:

Q. You mentioned the line deliveries after the gas leaves Bivins to Dalhart, Texline and Hartley. Isn't there line delivery to Clayton Gas Company?

A. Yes.

Q. That is contracted along with these other deliveries?

A. Yes.

Q. While this exhibit on statement No. 1 does show the amount that Colorado Interstate should collect on the basis of using a 7 cents price at Bivins, doesn't the exhibit also show in statement No. 2 the amount that Canadian River Gas Company should collect at Clayton from Colorado Interstate Gas Company on the basis of 7 cents at Bivins?

A. That is correct—using 7 cents, as testified to by Mr. R. A. Ford, plus the transmission and compressage cost as shown by Exhibit No. 276, statement 4, the total as per line 4 would be the amount that Canadian River Gas Company would be entitled to under a 7-cents gas price.

Q. So the exhibit is a combined one for both companies, showing what each would collect; first for the Canadian River at Clayton Junction, and then what Colorado Interstate would collect for all gas on the basis of paying that amount at Clayton Junction?

A. That is right.

Q. To Canadian River?

A. That is correct. Statement 2 is headed Canadian River Gas Company but Statement 3 is headed Colorado Interstate Gas Company, and the summary statement No. 1 is a combination for both and headed "Colorado Interstate Gas Co.," etc.

Q. It does, however, show each company separately before the combination is made on the front sheet?

A. That is correct.

(Vol. CII-(2) pp. 16010-16020.)

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41. Description of Canadian's Production and Gathering Facilities as of December 31, 1939.

The area from which Canadian secures its supply of gas involved in this case is known as the Texas Panhandle Field and, according to the Texas Railroad Commission, contains approximately 1,462,000 acres of proven gas land. This acreage is shown on Thompson's map, Exhibit 187. (Vol. LXVIII, pp. 9976-9981.) Of this acreage witness C. J. Peterson (Vol. LXVIII, pp. 9936, et seq.) and witness J.

D. Thompson, Jr. (Vol. LXVIII, p. 9981) classify approximately 1,035,000 acres as commercial acreage, or best commercial acreage, and approximately 427,000 acres as marginal acreage. These witnesses stated that the commercial or best commercial acreage in that portion with an average initial virgin open flow of above 5,000 Mcf. per well, and a marginal acreage is on the marginal edges of the field, except in central Gray County where it comprises a large part of the field, and is that acreage with an average initial virgin open flow of less than 5,000 Mcf. per well. A number of other maps showing the Texas Panhandle Field, in whole or in part, were introduced in evidence as exhibits.

As of December 31, 1939, Canadian held gas rights under oil and gas leases on approximately 325,000 acres of land in the Texas Panhandle Field in Carson, Hartley, Hutchinson, Moore, Oldham and Potter counties. (Exhibit 47, p. 2; Exhibit 146, p. 62.) On April 27, 1940, Canadian released approximately 10,000 acres of its gas rights (Exhibit 96), leaving it gas rights in approximately 315,000 acres. The location of the Canadian acreage is shown on map in R. J. Wallace Exhibit 181. This map shows the Canadian acreage to be in the westerly end of the Texas Panhandle Field. Exhibit 181 likewise lists and gives detailed data concerning the various leaseholds held by Canadian covering this acreage. The Commission's Exhibit 95 also contains maps showing the location of the Canadian acreage. Commission's Map 95 referred to above shows the general location of a fault line crossing the Texas Panhandle Field. Of the approximate 315,000 acres held under lease by Canadian, approximately 86,000 acres lie, generally speaking, to the south of this fault line and outside the proven area of the field.

A description of the other producing and gathering facilities of Canadian as of December 31, 1939 is contained in Exhibit 89 by Canadian's witness Watson and his testimony with reference thereto. (Vol. XVIII, p. 2524.)

Watson has been in the employ of Canadian since 1928, and up to 1936 he was employed in general engineering work connected with the (Vol. XVIII, p 2524) production,

transportation and measurement of natural gas. From 1936 to date he has been Assistant General Superintendent of Canadian operations.

He graduated from the University of Colorado in 1923 with the degree of B.S. (M.E.) Prior to that time he had actual field experience in drilling operations, as roustabout and tool dresser. Prior to his going with the Canadian he had experience as driller and drilling contractor in the Texas Panhandle Field, and was employed by the Amarillo Oil Company from September, 1927 to June, 1928, performing duties similar to those since performed for the Canadian.

He is a member of the Production Committee of the Natural Gas Section of the American Gas Association, and has for the last seven years been a member of the General Committee which supervises the Southwestern Gas Measurement Short Course, an extension course conducted by the University of Oklahoma. (Vol. XVIII, p. 2525.)

His description follows:

Canadian produces, and in most instances gathers (Vol. XVIII, p. 2525), natural gas for three customers, Amarillo Oil Company, Clayton Gas Company and Colorado Interstate. Sales to Amarillo Oil Company are made at the well for the Amarillo, Excell, Fritch and Channing local markets. All of the other gas sold by the company is gathered by it and passes through the Bivins compressor station or the Fritch master meter station, located at the opposite ends of the gathering system. In one instance, gas is delivered direct from a well into the gathering system of the Texoma Natural Gas Company and is metered at that point.

The company commenced operations in June, 1928, with 34 producing wells, with aggregate open flow as shown by tests made in 1929, of 893,000 Mcf. per day. The rock pressures of these wells, as reflected by the above tests, then ranged from a minimum of 347 pounds gauge to a maximum of 435 pounds gauge. Additional wells were drilled and acquired from time to time, so that as of December 31, 1939, the company owned and operated 94 gas

wells with an aggregate open flow capacity of 2,071,000 Mcf., and with rock pressures ranging from a minimum of 243 pounds gauge to a maximum of 428 pounds gauge. (Vol. XVIII, pp. 2526, 2527.)

There is attached as Schedule No. 1, to Exhibit 89 "A Chronological Statement of Producing Gas Well Acquisitions and Completions" by the company from June 1, 1928 to December 31, 1939, inclusive, showing as to each well owned and operated by the company as of December 31, 1939, its name, number and date of acquisition or completion, as follows:

Well Name and Number	Date Acquired or Completed by C. R. G. Co.
*Bivins A-2	6/ 1/28
* " A-3	"
* " A-4	"
* " A-5	"
* " B-1	"
* " B-2	"
* " B-3	"
* " B-4	"
* " B-5	"
* " B-6	"
* " C-1	"
* " C-4	"
* " D-3	"
*Ingerton A-1 (See Note 1)	"
*Masterson A-1	"
* " A-2	"
* " B-1	"
* " B-5	"
* " C-1	"
* " C-3	"
* " D-4	"
* " E-2	"
* " F-1	"
* " G-2	"
* " H-1	"
* " I-1	"
* " J-1	"
* " J-2	"

Well Name and Number	Date Acquired or Completed by C. R. G. Co.
*Masterson K-1	6/ 1/28
* " L-1	"
*Poling A-1	"
*Thompson A-1	"
* " A-2	"
*Warrick A-1	"
**Seay A-1	6/13/28
**Crawford A-1	6/29/28
**Bivins E-1	7/ 7/28
**Thompson B-1	7/27/28
**Bivins A-8	7/31/28
**Sneed A-1	9/ 5/28
**Bivins A-7	9/10/28
*Masterson M-1	9/14/28
*Sneed B-1	9/14/28
**Bivins A-6	9/18/28
Bivins A-10	5/17/29
Killgore A-1	5/27/29
Warrick A-2	7/27/29
**Ingerton A-2 (See Note 1)	9/ 6/29
**Bivins A-9	10/ 1/29
Read A-1	10/28/29
CRG Co. Fee A-1	11/11/29
*Johnson A-1	11/19/29
*Sanford A-1	11/19/29
*Sneed D-1	12/27/29
*Sneed D-2 (See Note 2)	12/27/29
Allison A-1	12/28/29
Sneed C-1	4/ 8/30
Masterson N-1	5/24/30
*Dunaway A-1	6/ 7/30
*Bivins F-1	6/19/30
*Bost A-1	7/18/30
*Bost B-1	7/18/30
Bivins A-13	9/15/30
McBride A-1	11/ 4/30
*Bost C-1	1/ 6/31
*Bost D-1	1/ 6/31
**Dunaway B-1	3/24/31
Crawford B-1	5/ 8/31

Well Name and Number	Date Acquired or Completed by C. R. G. Co.
Bost C-2	10/12/31
Dunaway A-2	10/18/32
*Bivins G-1	2/ 1/33
*Bivins H-1	2/ 1/33
*Bivins I-1	7/15/33
Bivins J-1	8/30/33
Bivins A-14	11/ 9/35
Bivins A-16	11/27/35
Masterson A-3	12/12/35
Bivins A-17	1/28/36
Bivins A-15	3/ 4/36
Thompson B-2	4/27/36
*Killgore B-1 (See Note 2)	8/15/36
Bivins A-18	11/ 5/36
Coughlan A-1	12/26/36
Bivins A-19	1/30/37
Bivins A-20	5/ 1/37
Killgore A-2	5/27/37
Bivins A-21	8/22/37
Read A-2	9/30/37
Bivins A-22	12/12/37
Bivins A-23	2/22/38
Bivins A-24	11/29/38
Masterson A-4	2/17/39
Bivins A-25	5/21/39
Masterson B-3	5/31/39
Sneed A-2	7/ 9/39
Masterson B-2	7/24/39
Killgore A-3	11/20/39

*Acquired as a producing gas well.

**Acquired as an incomplete well (date shown is date of completion).

Note 1. Ingerton A-1 and Ingerton A-2 wells were sold in 1935, after they had been classified as sour gas wells by the Texas Railroad Commission.

Note 2. Sneed D-2 well exchanged for Killgore B-1 well—8-15-36.

Note 3. Four wells which were purchased or drilled by the Company and sold to the United States Government in 1929, i. e., Bivins A-1, Bush A-1, Bush B-1 and Fuqua A-2 (Cliffside Helium Structure), have not been included in the above schedule, because these wells were never considered by the Company as a part of its producing facilities.

As of December 31, 1939, the company maintained and operated two drilling units, one portable cleaning-out machine and other miscellaneous tools and equipment used for the drilling, cleaning out and repairing of its gas wells. As of said date the company owned and operated a gathering system in the field consisting of a main 22-inch trunk gathering line running east from Bivins compressor station, and a 14-inch trunk line runing southwest from this station, together with gathering line laterals and extensions to these trunk lines, varying in size from two to 20 inches. The gathering system is interconnected in such a manner as to facilitate the delivery of gas to the various market outlets. The sizes and lengths of the several (p. 2527) gathering lines as reflected by the company's books of account are set forth in the following table: (Ex. 89)

Gathering Lines by Sizes and Lengths of Pipe as of December 31, 1939.

Size Inches	Length Feet	
2 in.	60,164 ft.	11 in.
3	3,918	9
4	169,503	1
5-3/16 (Casing)	1,784	11
6	110,137	0
6⅝ (Casing)	2,196	11
8	133,627	8
10	85,340	9
12	51,839	2
14	26,007	4
16	14,071	1
20	2,030	1
22x5/16	97,242	10
4 (Extra Heavy)	179	6
Total	758,044 ft.	0 in.

With two minor exceptions, gas produced is metered at each well, and also at points where customers receive gas from the main gathering system. Regulators are installed at key wells and key points on the gathering (p. 2529) system to assist in maintaining the required line pressures. These conditions prevailed as of December 31, 1939.

In the operation of the production and gathering system, the company operates certain housing, warehouse and other facilities, a portion of which is located at Bivins station and other portions at two other field camps. One of the field camps consists of two houses, one bunk house, warehouse, garage, material yard and water well, located near the town of Fritch, Texas. The other camp is located near Masterson No. G-2 well, consisting of two houses, one garage and water well.

A telephone system is operated and maintained, which is used for field as well as transmission purposes. This system is operated through switchboards located at the Amarillo office and Bivins station.

The company maintains an office at Amarillo, Texas, for its headquarters for the production, pipe line, meter, land, engineering and field accounting (p. 2530) departments.

The company as of said date owned twelve trucks and pickups, and fifteen automobiles, several of which were used jointly for field and pipe line transmission operations. This equipment was located at Bivins station, Fritch Camp, Masterson No. G-2 Camp and Amarillo.

Witness O'Connor for the Commission, in Exhibit 47, also gave a somewhat detailed description of the producing and gathering facilities.

[It is considered impractical to insert copies of Commission's map (exhibit 95) and Canadian's R. J. Wallace map (exhibit 181) in the printed record.]

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42. Description of Canadian's Portion of the Denver Line as of December 31, 1939.

A description of the Denver Line (as that term is employed in the Companies' evidence) as a whole is contained supra under the title, "13. Description of the facilities of the 'Denver Line' used and useful in the transmission of gas."

Canadian's portion of the transmission line, as segre-

gated by the Companies, extends from the intake of Bivins Station in the State of Texas, to Clayton Junction, State of New Mexico, and is a 22″ outside diameter lap-welded steel "Dresser-coupled line * * *, and built with single random length pipe averaging 19 feet per joint," and is in all respects similar to the main line of Colorado Interstate extending from Clayton Junction to the Arkansas River, in the State of Colorado. (Exhibit 231, p. 2.)

The following are laterals taking off Canadian's portion of the Denver Line:

Dalhart, a 6⅝″ line outside diameter, and 5,041 feet in length.

Texline, a 2⅜″ line outside diameter, and 20,739 feet in length.

Clayton, a 4½″ line outside diameter, 8,439 feet in length, and a 3½″ line outside diameter, 28,208 feet in length. (Exhibit 65, p. 4.)

The Bivins compressing station, located in Moore county, Texas, approximately 35 miles north of Amarillo, where the gas produced and gathered enters the Denver line, has equipment consisting of three 1,000 HP Worthington gas-engine driven gas compressors, one 600 HP Clark gas-engine driven gas compressor, and appurtenant and auxiliary equipment.

There is at the Bivins station a camp or operators' village, consisting of approximately 40 structures, including dwellings, a hotel, garages, and miscellaneous service buildings. Canadian owns and operates its own telephone system along the pipe line from Bivins station to Clayton Junction, from Bivins station to its operating office at Amarillo, and from Bivins station to various points in the gas field. There is a gasoline extraction plant located at the Bivins station, and on the main line approximately 22 miles from the outlet of Bivins station, there is a dehydration plant which removes excess moisture from the gas (Exhibit 47, p. 3). It also owns personal property, such as automobiles and trucks, which are used in common for the operation of the transmission line and its production and gathering properties.

43. Volumes and Peak Requirements of Gas Produced, Used in Operations and Sold.

Supra, under the title, "15. Volume Sales and Revenues of all Gas and of Resale Gas Only, Colorado Interstate, 1928 to 1939, Inclusive, and as Estimated 1940 to 1947, Inclusive," there is abstracted Exhibit 43 showing the volumes of gas delivered by Canadian to Colorado Interstate and the Revenues derived therefrom from 1928 to 1939, inclusive, and Exhibit 56 showing the estimate of future volumes and revenues from 1940 to 1947, inclusive, by Witness Beardsley, Superintendent of the Meter Department of Colorado Interstate. Reference is also made to Exhibit 59, which was Mr. Beardsley's working papers and which was later changed as to form, but not as to figures, by Ford, Bacon & Davis, and then became Exhibit 56.

Also supra there is abstracted Exhibit 66 covering the evidence applicable to the title, "16. Peak Load Obligations and Line Capacity of the Denver Line as Found Through the Winter 1939-1940 and as Estimated Through 1947 and Estimated Necessary Additional Facilities."

In Exhibit 78, Witness Lusk, for Respondent, gives in Mcf. at 16.4 pounds pressure absolute, the volumes of gas produced, and gas used in its own operations for the years 1928 to 1939 inclusive, which statement we reproduce below, covering gas used in operations, total gas accounted for, gas purchased and exchanged, and total gas produced:

SALES

Year Ended Dec. 31	Colorado Interstate Gas Company: Clayton New Mexico Denver Line (1)	Gray Oklahoma Chicago Line (2)	Clayton Gas Co. (3)	Amarillo Oil Co. (4)
1928 (7 Mos.)	2,926,886	....	(A)	3,097,009
1929	9,775,441	....	(A)	7,248,678
1930	11,847,757	21,924	(A)	5,888,427
1931	12,511,839	2,082,750	(A)	3,426,430
1932	12,170,499	6,091,573	(A)	1,809,980
1933	11,466,028	5,895,838	28,776	1,885,097
1934	11,982,834	10,779,891	63,188	3,248,503
1935	12,993,828	13,472,288	68,957	4,300,505
1936	16,905,187	16,939,253	73,159	4,482,657
1937	17,836,960	17,850,223	78,553	5,105,813
1938	16,015,373	16,403,983	81,399	4,887,823
1939	18,377,500	18,036,930	93,535	4,635,000

Note: (A) Sales prior to June 30, 1933 made by Colorado Interstate Gas Co.

Note: (B) Includes Free Gas to Lessors.

Field Sales	Total Sales	Used in Operations (B)	Total Gas Accounted for	Gas Purchased and Exchanged	Total Gas Produced
(5)	(6)	(7)	(8)	(9)	(10)
....	6,023,895	97,687	6,121,582	228,891	5,892,691
72,850	17,096,969	385,008	17,481,977	281,298	17,200,679
122,530	17,880,638	417,480	18,298,118	—145,407	18,443,525
262,949	18,283,968	444,900	18,728,868	130,652	18,598,216
....	20,072,052	369,401	20,441,453	....	20,441,453
....	19,275,739	368,118	19,643,857	....	19,643,857
....	26,074,416	347,215	26,421,631	....	26,421,631
....	30,835,578	468,093	31,303,671	370,136	30,933,535
....	38,400,256	582,657	38,982,913	44,279	38,938,634
....	40,871,549	720,766	41,592,315	—44,279	41,636,594
....	37,388,578	561,233	37,949,811	....	37,949,811
....	41,142,965	648,296	41,791,261	....	41,791,261

In Exhibit 79 Witness Lusk shows the volumes of gas produced in the months of January and February of each of the years 1928 to 1939, inclusive, which represent the peak month deliveries for the years involved. Whenever the average daily production in February was greater than in January, the production for February is shown as the peak month. The month of December, 1928, was taken as the peak in that year, since operations only began in the summer of that year. This is shown in Mcf. at 16.4 pounds pressure absolute, and is set forth below showing average day in peak month, as follows:

Peak Month Deliveries

	Colorado Interstate Gas Co.						
	Clayton, New Mexico (Denver Line)	Gray, Oklahoma (Chicago Line)	Clayton Gas Co.	Amarillo Oil Co. (A)	Field Sales	Gas Used in Operations	Total
Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1928(C)	789,747	....	(B)	648,657	....	26,219	1,464,623
1929	832,991	....	(B)	696,557	....	33,188	1,562,736
1930	1,449,217	....	(B)	717,042	13,000	51,517	2,230,776
1931	1,368,457	....	(B)	565,796	....	48,939	1,983,192
1932	1,563,388	421,798	(B)	315,622	....	47,653	2,348,461
1933	1,266,364	480,895	(B)	246,115	....	40,824	2,034,198
1934	1,230,835	927,714	8,500	336,438	....	35,971	2,539,458
1935	1,309,917	1,210,561	8,159	491,832	....	47,418	3,067,887
1936	1,709,770	1,441,332	9,663	523,881	....	59,256	3,743,903
1937	2,085,294	1,516,958	11,950	596,727	....	84,618	4,295,547
1938	1,565,042	1,621,131	10,720	526,707	....	55,338	3,778,938
1939	1,885,314	1,488,752	12,773	541,534	....	67,099	3,995,472

Notes: (A) Includes deliveries to Channing, Dalhart Texline and Hartley.

(B) Included with deliveries to Colorado Interstate Gas Company at Clayton, New Mexico (Denver Line).

(C) Month of December, 1928 taken as Peak Month

Average Day in Peak Month

Colorado Interstate Gas Co.						
Clayton, New Mexico (Denver Line)	Gray, Oklahoma (Chicago Line)	Clayton Gas Co.	Amarillo Oil Co. (A)	Field Sales	Gas Used in Operations	Total
(8)	(9)	(10)	(11)	(12)	(13)	(14)
25,746	....	(B)	20,495	......	846	47,087
29,750	....	(B)	24,877	......	1,185	55,812
46,749	....	(B)	23,130	419	1,662	71,960
44,144	....	(B)	18,251	......	1,579	63,974
50,432	14,545	(B)	10,181	......	1,537	76,695
45,227	15,513	(B)	8,790	......	1,458	70,988
43,958	33,133	274	12,016	......	1,285	90,666
42,255	43,234	291	15,866	......	1,530	103,176
58,958	49,701	333	18,065	......	2,043	129,100
67,268	48,92[illegible]	385	19,249	......	2,730	138,566
50,485	52,295	346	18,811	......	1,785	123,722
67,333	53,170	456	17,469	......	2,396	140,824

The estimated annual deliveries, gas used in operations, and peak month, 1940 to 1947, inclusive, are shown in Exhibit 80, Witness Hendee, Respondent's General Manager. The data for future deliveries to Colorado Interstate at Clayton Junction are based upon the estimates of Witness Beardsley, contained in Exhibits 56 and 59, abstracted under Title 15 supra, and the peak month requirements for such deliveries was taken at 12% of the annual volumes. The data for future deliveries to Colorado Interstate at Gray, Oklahoma, for the Chicago Line were obtained from J. G. Dickinson, General Superintendent of Texoma Natural Gas Company, and the data for future deliveries to Amarillo Oil Company and Clayton Gas Company, respectively, were obtained from W. W. Rusk, Assistant General Manager of Amarillo Oil Company. Estimates of gas to be used by the company in its own operations were obtained from W. R. Beardsley, Supervisor of the Meter Department of Colorado Interstate.

The estimated annual deliveries and peak month are shown in an attached statement to Exhibit 80 in Mcf. at 16.4 pounds pressure absolute, as follows:

Year	Clayton, New Mexico (Denver Line)	Gray, Oklahoma (Chicago Line)	Clayton Gas Co.	Amarillo Oil Co.	Used in Operations	Total
nnual Volume.						
1940	18,830,659	17,119,099	94,884	5,825,960	637,000	42,507,602
1941	20,345,148	17,163,824	96,506	6,425,960	675,000	44,706,438
1942	20,807,395	22,089,205	98,128	6,425,960	700,000	50,120,688
1943	20,915,828	24,844,885	99,750	6,425,960	725,000	53,011,423
1944	21,343,807	27,912,670	101,372	6,425,960	750,000	56,533,809
1945	21,767,854	30,015,270	102,994	6,425,960	775,000	59,087,078
1946	21,767,854	23,826,828	102,994	6,425,960	775,000	52,898,636
1947	21,767,854	....	102,994	6,425,960	775,000	29,071,808
eak Month						
1940	2,243,602(A)	1,645,204(A)	15,687(A)	711,212(A)	76,440	4,692,145
1941	2,441,420	1,716,382	15,923	798,150	81,000	5,052,875
1942	2,496,890	2,208,921	16,191	798,150	84,000	5,604,152
1943	2,509,900	2,484,490	16,459	798,150	87,000	5,895,999
1944	2,561,260	2,791,267	16,726	798,150	90,000	6,257,403
1945	2,612,140	3,001,527	16,994	798,150	93,000	6,521,811
1946	2,612,140	3,176,467	16,994	798,150	93,000	6,696,751
1947	2,612,140	....	16,994	798,150	93,000	3,520,284

Note: (A) Actual in 1940.

Canadian's Witness, WILLIAM R. BEARDSLEY, with reference to Exhibit 43, testified as follows: (Vol. VII, pp. 945-946.)

Q. Did you help prepare the original statement which accompanied this exhibit?

A. The written statement that accompanies it?

Q. Yes.

A. I had nothing to do with the written statement which accompanies this exhibit.

Q. Or the engineering testimony given yesterday with regard to the exhibit, description of facilities?

A. I don't believe I did.

Mr. March: That's all. We don't have any objection.

Mr. Brock: I believe the exhibit was admitted?

The Trial Examiner: Yes, it is admitted, Mr. Brock.

(Exhibit 43, Witnesses Lusk and Beardsley, received in evidence.)

• • • • •

MR. BEARDSLEY further testified with reference to Exhibit 56 as follows: (Vol. VII, Official Transcript, page 955.)

Did you write this written statement which you read into the record?

A. I did.

Q. Who assisted you in writing that?

A. Nobody.

Q. Just what part of this exhibit did you prepare?

A. As I stated before, the estimates of future sales and revenue were taken from information which I supplied.

Q. You just supplied this information to certain other people and they made up these tables?

A. That's right.

Q. And who were these people?

A. Ford, Bacon & Davis.

Q. However, you had made some sort of compilation before you turned these over to Ford, Bacon & Davis?

A. That's right.

Canadian WITNESS, HENDEE, testified as follows: (Vol. VIII, pages 1092, 1093.)

Q. What do you think about forecasting in regard to business cycles?

A. What do I think about it?

Q. Yes, what do you think about it, the accuracy?

A. Well, some of them claim to hit it always and others have fallen by the wayside.

Q. Now, you went over these figures very carefully with Mr. Beardsley, I believe you testified?

A. I think so, yes.

Q. You added to his wealth of experience in forecasting and adopted these figures as your own?

A. Yes, I think so. We have gone over them carefully and used everything that we have to the best of our knowledge and concluded that that is as near as we can get to it.

Q. Why did you predict a decrease in industrial load from 1943—1943 over 1942 and 1941?

A. I don't think that shows in my predictions. Our curves have been rather a steady increase.

Q. Well, are these your estimates here, Exhibit No. 56?

A. No, I don't think I had anything to do with those.

Q. You didn't have anything to do with Exhibit No. 56?

A. No.

Q. You take no responsibility for anything contained therein?

A. It was under my supervision, that's all.

Q. Your experience is that there is going to be a continuous increase, is that right?

A. Generally so, yes.

Q. Did you ever see Exhibit No. 56 before, a copy of it?

A. No, I don't think I ever have in this form.

Q. What do you mean "in this form"?

A. I may have seen the figures but I haven't seen this particular report.

Q. Did they consult you about forecasts, this company?

A. Generally, yes.

Q. This is sort of an exception to the rule?

A. Well, this is probably the same figures in another form.

Q. You don't know whether it is or not, though?
A. No, I don't.

Canadian's WITNESS, J. G. DICKINSON, testified as follows: (Vol. LXIV, pages 9197-9206.)

Direct Examination.

By Mr. March:

Q. Please state your name.
A. J. G. Dickinson.
Q. What business are you engaged in?
A. I am General Superintendent of production for Texoma Natural Gas Company.
Q. Are you the same Mr. Dickinson that has been sitting in the court room here the last three or four days?
A. I believe so.
Q. Are you in any way connected with Canadian River Gas Company?
A. No, sir.
Q. Your business here is solely that of an observer?
A. That is right.
Q. Mr. Dickinson, I hand you a copy of a letter here signed by you, addressed to Mr. Robert W. Hendee, dated November 18, 1940, which purports to give the requirements of the Texoma Natural Gas Company on the Canadian River Gas Company for the future. Does that look like the letter you wrote?
A. Yes, I think so.
Q. Are the figures—is that the way you had them?
A. I don't recall the figures but—
Q. Will you state briefly what that shows?
A. This is a designation of quantities of gas which Natural Gas Pipeline Company would require from Canadian River Gas Company to supply markets which would be served by certain extensions which were contemplated.
Q. You say that certain extensions of the Natural Gas Pipeline facilities were contemplated?
A. Yes.
Q. With what certainty do you know that you will require this gas in the future as you have indicated here in this letter from the Canadian River Gas Company?

A. I don't believe I am in a position to testify as to that. Maybe I could best explain this letter by saying that I was advised by Mr. Floyd C. Brown who is vice president and general manager of our company—

Q. Which company is that?

A. The Texoma Natural Gas Company and Natural Gas Pipeline Company.

—that Texoma would be required to furnish certain quantities of gas for additional markets and at the same time he requested that I advise Mr. Hendee that additional quantities would be required from the Canadian River Gas Company—from the Colorado Interstate Gas Company instead of Canadian River Gas Company.

Q. What is Mr. Brown's position? Is he your superior?

A. Yes.

Q. You work under his immediate supervision?

A. No, I work under Mr. Kesinger's immediate supervision.

Q. Who is he?

A. He is general superintendent.

Q. Kesinger works under Mr. Brown's supervision?

A. Yes.

Q. Let's see. You say that you furnished this estimate of future requirements because Mr. Brown told you to?

A. No, I believe it would be more accurate to say that Mr. Hendee asked me to furnish him with the requirements from Colorado Interstate as far as Natural Gas Pipeline Company was concerned, and I requested the information of Mr. Brown.

Q. Well, you asked Mr. Brown to tell you just exactly what the requirements of Texoma Natural Gas Company and Natural Gas Pipeline Company of America would be upon Canadian River Gas Company, is that right?

A. Yes.

Q. So he furnished you with this information in this letter?

A. That's right.

Q. Well, how do you know that these will be the requirements?

A. Well, I am depending upon Mr. Brown's judgment in that matter.

Q. You state here in this letter:

"Confirming my telephonic conversation with you yesterday the following tabulation represents the increased quantities of gas to be furnished pipe line to Chicago and Milwaukee by Canadian River Gas Company."

Now, Mr. Dickinson, do you know whether or not Canadian River Gas Company will be required to furnish the amounts of gas indicated here in this estimate?

A. It is my judgment that they will be, based on the acquirement of knowledge as I outlined just previously.

Q. Then it is not solely the information which you got from Mr. Brown?

A. Not entirely.

Q. If you wrote this letter and state that that is how much gas you are going to require, you merely are relying upon what Mr. Brown said, or did you have some knowledge as to the correctness of these figures yourself?

A. Oh, no, I have no knowledge of the figures outside of the information I got from Mr. Brown.

Q. Did you get all of this information from Mr. Brown, every bit of it?

A. Yes.

Q. So, therefore, you don't know whether or not they are going to need these increased quantities of gas indicated in this letter or not, of your own knowledge—the Texoma Natural Gas Company and the Natural Gas Pipeline Company of America?

A. No, I haven't made a study of market requirements.

Q. As far as you know, they may not need any of it?

A. Oh, I wouldn't say that. I have confidence in Mr. Brown's judgment. I would believe they would probably need all of it.

Q. Let's see how Mr. Brown formulates this judgment. You are the superintendent in charge of production of Texoma Natural Gas Company, is that correct?

A. That's right.

Q. And Texoma Natural Gas Company—what is the relation between Texoma Natural Gas Company and Natural Gas Pipeline Company of America?

A. They are affiliated companies.

Q. They are controlled by identical interests, aren't they?

A. Not exactly.

Q. What is the difference? Wherein are they not controlled by identical interests?

A. Well, I believe that Standard of New Jersey, which does have an interest in Natural Gas Pipeline Company, does not have an interest in Texoma.

Q. That is the only difference in the relationships?

A. I think so.

Q. Are they operated as substantially a single business enterprise?

A. Yes.

Q. Now, when Mr. Brown wants to know whether or not he is going to have to go to some source—strike that, will you?

All of the gas of Natural Gas Pipeline Company of America is furnished by the Texoma Natural Gas Company and the Canadian River Gas Company, is it not?

A. Yes. That is, it is furnished through Colorado Interstate from Canadian River acreage.

Q. Yes.

A. And Texoma acreage.

Q. Those are the only two sources of supply for the Chicago line?

A. Yes.

Q. Well, now, when Mr. Brown wants to know as to whether or not all of that gas could be supplied by you or not, he would have to ask you as production superintendent, would he not?

A. Yes, I think he would ask me.

Q. Well, did he?

A. Yes, I had a conference with Mr. Brown in Chicago in which we discussed the future requirements from Texoma acreage.

Q. What sort of a report did you make to him?

A. I told him that we had ample reserves in the Panhandle field to supply the additional requirements from Texoma over a considerable number of years.

Q. How many years?

A. I don't recall.

Q. Approximately, how many years?

A. I don't remember that, Mr. March.

Q. Would it be fifty years or twenty years?

A. No.

Q. Would it be twenty years?

A. I don't remember.

Q. Would it be five years? You have some idea, now, don't you Mr. Dickinson? What did you mean by a large number of years? What did you have in mind when you said "large number of years"?

A. I think it would be best to express it this way, that on account of the drainage condition in the Panhandle field the life of Texoma leases is limited by the life of the field and Texoma has more reserves than is required for its load and that we could furnish additional gas for the extra markets in addition to our present setup, present requirements.

Q. For a good many years?

A. Yes.

Q. About how many years?

A. Well, I told you I didn't remember.

Q. Well, you have some idea, now, Mr. Dickinson, now, don't you? Just give us approximately.

A. Well, as I remember it was in the neighborhood of ten years, more or less. I don't remember exactly.

Q. Approximately ten years, you thought, that the Texoma Natural Gas Company had sufficient reserves to furnish their present requirements for approximately ten years, is that right?

A. I think so, more or less. I don't remember exactly there.

Q. This drainage thing. I didn't ask anything about drainage—

Mr. Spencer: He's your witness.

By Mr. March:

Q. What do you know about drainage? Are you a geologist?

A. No.

Q. You don't know anything about drainage, then, do you?

A. I made quite a study of the conditions in the Panhandle field.

Q. Are you responsible for the testimony in the Texoma

case that the Texoma Natural Gas Company was losing sixty per cent of their gas by means of drainage?

A. I believe Mr. Peterson testified to that.

Q. Do you think they are losing that much?

A. Yes.

Q. All right, you told Mr.—you wouldn't know the per cent of drainage since you aren't a geologist, would you?

A. No, I have no knowledge as to the percentage I didn't make that study.

Q. So you had this conference with Mr. Brown and you told Mr. Brown that you had reserves to take care of the present requirements, you thought, for a period of ten years, and what else did you tell him? That doesn't get down to these figures yet.

A. I think that is all. I told him I thought we had sufficient reserves to supply those requirements for ten years, more or less. I don't remember the exact period.

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44. Description of Canadian's Production and Gathering Facilities Additions Estimated for 1940 to 1947, Inclusive.

In Exhibit 94, Witness Watson, Assistant Superintendent of Canadian (Vol. XXI, p. 2891), testified concerning the additional production and gathering facilities required during the period 1940 to 1947, inclusive, to meet the following obligations:

(a) Total annual production, and peak month as estimated and submitted by R. W. Hendee, General Manager of Canadian, in Exhibit 80; also related data pertaining to peak day requirements.

(b) Existing obligations of the company to its lessors with respect to the development and production of the leases involved, and existing statutory requirements relating to production in Texas.

In order to meet such requirements and obligations the witness testified that it would be necessary to drill the following wells:

Year	Number of Wells
1940	4
1941	5
1942	6
1943	8
1944	6
1945	5
1946	6
1947	1
	41

With the exception of the five so-called exploratory wells involved in lease obligations, the above drilling program contemplates the completion of wells which will produce gas in average quantities, and ignores the possibility of dry holes. The program is apportioned over the years, in order to avoid an abnormally large drilling program in any one year, and in order to obtain the benefit of knowledge gained from drilling a few wells for the purpose of most advantageously locating subsequent wells. The well to be drilled in 1947 is to satisfy a lease obligation, since the production estimates indicate a substantial reduction in the total volume of gas required for that year.

While it is planned generally to locate future wells for production capacity, in so far as lease obligations permit, it will be necessary to locate and drill wells for the purpose of extending the company's production facilities into areas which are now undrilled. The obligations to lessors which affect any further drilling or producing program are generally requirements to drill wells in specific areas, to prorate production equitably among the various lessors, and to avoid undue drainage as between lessors.

The future drilling program is based upon an average rock pressure decline of approximately 100 pounds during the period within the general area in which future wells of the company will be drilled. (Vol. XX, p. 2893.)

In estimating the future open flow capacity of the present wells he used the actual performance of each well as determined by official tests of the Texas Railroad Commission in July and August, 1940. As to future wells, he used the average performance obtained from these tests.

Peak month production requirements generally reflect the maximum obligation for which producing facilities must be provided. (Vol. XX, p. 2894; Vol. LXXXVIII, pp. 13283, 13284.) However, the peak day in any year is in excess of the average day in the peak month, and sufficient flow capacity must be available to supply the load on the peak day or days. Gathering facilities required must be measured by peak day requirements. (Vol. XX, p. 2894.)

The four wells required in 1940 resulted in one dry hole. The other three have been or will be equipped with meter and connected with the main gathering system at a total cost of approximately $125,000 for the four wells.

Based on past experience, the cost of cleaning out and reconditioning wells should average not less than $3,300 each, exclusive of casing, and the casing in connection with repair jobs has cost approximately $4,000 per well (p. 2895). In his opinion, in the years 1940 to 1947, inclusive, at least four of these repair jobs will be completed each year at a total cost of $16,400 per year.

Provision must be made for future replacements of equipment now owned and operated for the purpose of drilling and cleaning out wells. The equipment now in use has been in active service for a number of years. He estimated the following new drilling and cleaning-out equipment:

1940—1 120 foot steel derrick without other equipment;

1941—1 complete semi-portable cleaning-out unit with necessary wire lines, tools, power unit, etc.;

1943—1 80 foot steel derrick complete with foundation, bull wheel, calf wheel, band wheel and other derrick equipment.

1945—1 80 foot steel derrick complete, same as above.

Based on present prices, he estimated the cost of the derricks complete at $6,000 each, and the cost of the cleaning-out unit at $10,000. The 120 foot steel derrick without other equipment has been purchased at approximately $1,560.

He estimated the following extension to the present gathering system would be required:

1941—Approximately 11,600′ of 18″ and 7,600′ of 16″ trunk gathering line to parallel existing trunk gathering line between Canadian River Crossing and intake of Compressing Station of Texoma Natural Gas Company at Fritch, including metering station. Four additional lines at Canadian River Crossing, each to be constructed of approximately 3,620′ of 10″ heavy pipe, complete with headers and 2000′ of 18″ line connecting with present river crossing headers.

1942—Lift 1,089′ of 8″ and 16,976′ of 6″ main lateral extending into sour gas area and replace with 18,065′ of 10″ main lateral. Relay 18,065′ of lifted lines as an extension to the above lateral. Lay 18,000′ of new 4″ pipe, connecting Bivins A-9, Bivins A-10 and Bivins A-22 Wells (Bivins A-22 presently unconnected) to above lateral.

Connect Masterson B-5 Well (presently unconnected) into future gathering system at cost of approximately $5,000.

The construction work outlined above for 1941 will be required to take care of increased deliveries for Colorado Interstate at Gray, Oklahoma. The construction work outlined for 1942 is intended primarily to utilize more adequately the company's sour gas wells and reserves, in connection with which it will be necessary to construct a plant at Bivins station for the purpose of treating and purifying such gas by removing the hydrogen sulphide therefrom (p. 2898). It is estimated that a plant of this character would cost approximately $35,000.

The various types of miscellaneous equipment in the operation and maintenance of the gathering system have been in continuous use for ten years or more. New equipment of this kind will be required during the estimated periods as follows:

1941—One 40 h. p. pipe line tractor complete with side boom and winch.

One 105 cu. ft. per minute portable air compressor complete with 2 sets of jack hammers and appurtenances.

1942—One Cleveland Model 110 Ditcher, or equivalent.

1944—One 400 amp. gasoline engine driven portable electric welding generator and necessary equipment.

The items required in 1941 represent additional equipment; other items, replacement (p. 2899).

A new field camp will be required in the vicinity of Plum Creek on the main trunk gathering line, consisting of a house, garage, water well, and other miscellaneous items. It is estimated that the addition of these facilities will be required in 1942 at a cost of approximately $5,000 (p. 2900).

His summary of additional production and gathering facilities required 1940 to 1947, inclusive, is as follows:

Drill four wells.

1940

Clean out and recondition three wells.

One 120 foot steel derrick without other equipment.

1941

Drill five wells.

Clean out and recondition four wells.

One complete semi-portable cleaning-out unit with necessary wire lines, tools, power unit, etc.

Approximately 11,[illegible]' of 1[illegible]" and [illegible]' of 16" trunk gathering line to parallel existing trunk gathering line between Canadian River Crossing and intake of Compressing Station of Texoma Natural Gas Company at Fritch including metering station. Four additional lines at Canadian River Crossing, each to be constructed of approximately [illegible]' of [illegible]" heavy pipe, complete with headers and [illegible]' of 1[illegible]" line connecting with present river crossing headers.

One 40 h. p. pipe line tractor complete with side boom and winch.

One 105 cu. ft. per minute portable air compressor complete with 2 sets of jack hammers and appurtenances.

1942

Drill six wells.

Clean out and recondition four wells.

Lift 1,089′ of 8″ and 16,976′ of 6″ main lateral extending into sour gas area and replace with 18,065′ of 10″ main lateral. Relay 18,065′ of lifted lines as an extension of the above lateral.

Lay 18,000′ of new 4″ pipe connecting Bivins A-9, Bivins A-10 and Bivins A-22 to above lateral.

Connect Masterson B-5 Well into gathering system.

Sour gas treating plant.

One Cleveland Model 110 Ditcher, or equivalent.

Plum Creek Camp.

1943

Drill eight wells.

Clean out and recondition four wells.

One 80 foot steel derrick complete with foundation, bull wheel, calf wheel, band wheel and other derrick equipment.

Acetylene generator.

1944

Drill six wells.

Clean out and recondition four wells.

One 400 amp. gasoline engine driven portable electric welding generator and necessary equipment.

1945

Drill five wells.

Clean out and recondition four wells.

One 80 foot steel derrick complete same as in 1943.

1946

Drill six wells.

Clean out and recondition four wells.

1947

Drill one well.

Clean out and recondition four wells.

Said Exhibit 84, in its entirety, is as follows:

Estimate of Additional Production and Gathering System Facilities Required by Canadian River Gas Company, 1940 to 1947, Inclusive.

Written Statement of Max K. Watson.

The additional production and gathering system facilities which will be required by the Canadian River Gas Company (hereinafter called the "Company") for the period 1940 to 1947, inclusive, as outlined hereinafter, are those required to meet the following obligations:

(a) Total annual production and peak month requirements of the Company for the period 1940 to 1947, inclusive, submitted by Mr. R. W. Hendee in Exhibit No. 80; also related data pertaining to peak day requirements; and

(b) Existing obligations of the Company to its lessors with respect to the development and production of the leases involved; and existing statutory requirements relating to the production of natural gas in the State of Texas.

1. Future Wells.

In order to meet the above production requirements and lease obligations during the period specified, it will be necessary for the Company to drill and complete additional wells as follows:

Year	Number of Wells
1940	4
1941	5
1942	6
1943	8
1944	6
1945	5
1946	6
1947	1
	41

With the exception of five so-called exploratory wells involved in lease obligations, the above drilling program con-

templates that the wells to be drilled will be completed as wells capable of producing gas in average quantities, and disregards the possibility of dry holes or non-commercial gas wells. In arranging the program, the period covered has been considered as a whole and the total number of wells required has been to some extent apportioned over the years covered, in order to avoid an abnormally large drilling program in any one year and to obtain the benefit of the knowledge gained from drilling a few wells for the purpose of most advantageously locating subsequent wells. Only one well is included for the year 1947 (to satisfy a lease obligation), since the production estimates submitted indicate a substantial reduction in the total volume of gas required for that year.

As indicated above, the exact location of future wells will be determined as the drilling program proceeds. While it is planned generally to locate future wells for productive capacity, in so far as lease obligations will permit, it will be necessary to locate and drill wells for the purpose of extending the Company's production facilities into areas which are now undrilled. The obligations to lessors which affect any future drilling or producing program are generally—requirements to drill wells in specific areas, to prorate production equitably among the various lessors and to avoid undue drainage as between lessors.

The future drilling program outlined above is based upon an average rock pressure decline of approximately 100# during the period estimated, within the general area in which future wells of the Company will be drilled. This is a judgment figure based upon my observation of the past performance of gas wells of the Company as well as other gas wells in the field; also upon my knowledge of general conditions prevailing in the field.

In estimating the future open flow capacity of present wells, I have used the actual performance of each well as determined by official tests of the Texas Railroad Commission in July and August of 1940. As to future wells, I have used an average performance obtained from the tests of all the Company's wells made by the Commission during the period mentioned above. The Railroad Com-

mission is now using this method in determining gas allowables in the Texas Panhandle Field.

Peak month production requirements generally reflect the maximum obligation for which producing facilities must be provided, because the production allowable of a gas well in the State of Texas (25% of open flow) is based upon monthly totals. However, the peak day in any year is in excess of the average day in the peak month, and sufficient flow capacity must be available to supply the load on such peak day or days. Many wells are not able at all times to deliver more than 25% of their open flow capacity against peak-load field line pressures, and more wells are required for peak days than are indicated by allowables alone. Gathering facilities must always be based upon peak day requirements.

The four wells required for the year 1940 have been drilled; one of which resulted in a dry hole, and three of which have been or will be equipped with a meter and connected to the main gathering system at a total cost of approximately $125,000 for the four wells.

2. Reconditioning of Old Wells.

As in the past, the Company will be required in the future to clean out and recondition wells, which cave in and bridge by reason of the casing having been set too high, the occurrence of shale breaks between producing formations or other causes. Generally, liners have been run in each reconditioned well so that the caving formation could be kept out of the well bore and recurrence of the bridging avoided. It is impossible to estimate the exact number of wells which will require cleaning out and reconditioning from time to time, but an examination of well logs indicates that at least thirty-three of the existing wells are subject to caving and bridging at any time. Based upon past experience, the cost of cleaning out and reconditioning these wells should average not less than $3,300 each, exclusive of casing. In the past approximately 20% of the repair jobs have required casing at an additional cost of approximately $4,000 per well, which would increase the cost of the average repair job to $4,100. During 1940 Thompson B-1 Well was cleaned out and a smaller string

of casing set (due to a leaking production string) at a total cost of approximately $8,800; Bivins A-5 Well was cleaned out and a smaller string of casing set for the same reason at a total cost of approximately $5,900; and Bivins A-25 Well was cleaned out and a liner set at a total cost of approximately $3,300. There are other wells which should be cleaned out and reconditioned at the present time but this work has been deferred. It is my opinion that in each of the years 1941 to 1947, inclusive, at least four of these repair jobs will be completed at a total cost of at least $16,400 per year.

3. Drilling and Cleaning-out Equipment.

The type and quantity of equipment now owned and operated by the Company for the purpose of drilling and cleaning out wells has been generally adequate to carry on this work, but some provision must be made for future replacements, due to deterioration and obsolescence. As equipment is replaced, an improved type will be substituted. For the most part, equipment now on hand has been in active use for a number of years and, in my opinion, it will be necessary to replace substantially all of it in the near future. Accordingly, I estimate that it will be necessary for the Company to acquire new drilling and cleaning-out equipment as follows:

1940—1 120 foot steel derrick without other equipment;

1941—1 complete semi-portable cleaning-out unit with necessary wire lines, tools, power unit, etc.;

1943—1 80 foot steel derrick complete with foundation, bull wheel, calf wheel, band wheel and other derrick equipment.

1945—1 80 foot steel derrick complete as above.

Based upon present prices I estimate that the net cost to the Company of the above complete derricks will be approximately $6,000 each; and that the cost of the cleaning-out unit will be approximately $10,000. The cost of the 120 foot steel derrick without other equipment which has been purchased, was approximately $1,560.

4. Other Gathering Lines.

In addition to the extension of the gathering system provided for in the future drilling program outlined in item 1, above, the following reinforcement of, and extension to, the present gathering system will be required:

1941—Approximately 11,600′ of 18″ and 7,600′ of 16″ trunk gathering line to parallel existing trunk gathering line between Canadian River Crossing and intake of Compressing Station of Texoma Natural Gas Company at Fritch, including metering station. Four additional lines at Canadian River Crossing, each to be constructed of approximately 3,620′ of 10″ heavy pipe, complete with headers and 2000′ of 18″ lines connecting with present river crossing headers.

1942—Lift 1,089′ of 8″ and 16,976′ of 6″ main lateral extending into sour gas area and replace with 18,065′ of 10″ main lateral. Relay 18,065′ of lifted lines as an extension to the above lateral. Lay 18,000′ of new 4″ pipe, connecting Bivins A-9, Bivins A-10 and Bivins A-22 Wells (Bivins A-22 presently unconnected) to above lateral.

Connect Masterson B-5 Well (presently unconnected) into future gathering system at cost of approximately $5,000.

The pipe line construction work outlined above for the year 1941 will be required to take care of increased deliveries for Colorado Interstate Gas Company at Gray, Oklahoma. The pipe line construction work outlined above for the year 1942 is intended primarily to utilize more adequately the Company's sour gas wells and reserves.

5. Sour Gas Treating Plant.

As a part of the Company's program to utilize its sour gas production in the year 1942, as indicated in item 4, above, it will be necessary for the Company in that year to construct a plant at Bivins Station for the purpose of treating and purifying such gas by removing the hydrogen sulphide therefrom, so that it will be suitable for pipeline use. It is estimated that a plant of this character with suf-

ficient capacity to treat the allowable production of the Company's sour gas wells will cost approximately $35,000.

6. Pipe Line Department Equipment.

The Company requires various types of miscellaneous equipment in the operation and maintenance of its gathering system, a substantial portion of which has been in continuous use for a period of ten years or more. The major items of new equipment of this character, which will be required by the Company during the period estimated, are as follows:

1941—One 40 h. p. pipe line tractor complete with side boom and winch.
One 105 cu. ft. per minute portable air compressor complete with 2 sets of jack hammers and appurtenances.

1942—One Cleveland Model 110 Ditcher, or equivalent.

1944—One 400 amp. gasoline engine driven portable electric welding generator and necessary equipment.

The items required in 1941 represent additional equipment: all other items are replacements.

7. Field Camps.

As the number of wells to be drilled and produced in the area between Plum Creek and Canadian River Crossing increases, it will be necessary to construct a new field camp in the vicinity of Plum Creek on the main trunk gathering line, such camp to consist of a house, garage, water well and other miscellaneous items. It is estimated that the addition of these facilities will be required in 1942, and that the cost will be approximately $5,000.

Summary.

Additional Production and Gathering Facilities
Required, 1940 to 1947, Inclusive.

1940.

Drill four wells.

Clean out and recondition three wells.

One 120 foot steel derrick without other equipment.

1941.

Drill five wells.

Clean out and recondition four wells.

One complete semi-portable cleaning-out unit with necessary wire lines, tools, power unit, etc.

Approximately 11,600′ of 18″ and 7,600′ of 16″ trunk gathering line to parallel existing trunk gathering line between Canadian River Crossing and intake of Compressing Station of Texoma Natural Gas Company at Fritch, including metering station. Four additional lines at Canadian River Crossing; each to be constructed of approximately 3,620′ of 10″ heavy pipe, complete with headers and 2,000′ of 18″ line connecting with present river crossing headers.

One 40 h. p. pipe line tractor complete with side boom and winch.

One 105 cu. ft. per minute portable air compressor complete with 2 sets of jack hammers and appurtenances.

1942.

Drill six wells.

Clean out and recondition four wells.

Lift 1,089′ of 8″ and 16,976′ of 6″ main lateral extending into sour gas area and replace with 18,065′ of 10″ main lateral. Relay 18,065′ of lifted lines as an extension to the above lateral.

Lay 18,000′ of new 4″ pipe connecting Bivins A-9, Bivins A-10 and Bivins A-22 to above lateral.

Connect Masterson B-5 Well into gathering system.

Sour gas treating plant.

One Cleveland Model 110 Ditcher, or equivalent.

Plum Creek Camp.

1943.

Drill eight wells.

Clean out and recondition four wells.

One 80 foot steel derrick complete with foundation, bull wheel, calf wheel, band wheel and other derrick equipment.

1944.

Drill six wells.

Clean out and recondition four wells.

One 400 amp. gasoline engine driven portable electric welding generator and necessary equipment.

1945.

Drill five wells.

Clean out and recondition four wells.

One 80 foot steel derrick complete same as in 1943.

1946.

Drill six wells.

Clean out and recondition four wells.

1947.

Drill one well.

Clean out and recondition four wells.

Commission Witness Stevens sponsored Exhibit 197.

Stevens' Exhibit 197 constitutes an availability study based upon ninety-seven gas wells that had been completed by the end of the calendar year 1940, and which includes two old wells drilled in prior years and which have not been connected, to-wit, Bivins A-22 and Masterson B-5.

The witness stated that the rock pressure decline of 8.6 pounds which constituted the loss in pressure from 1939 to 1940, would continue at this same rate throughout the period covered by the study.

The witness assumed a maximum yearly demand to all market outlets of 49,000,000 Mcf. on a 14.65 pressure base.

The witness assumed a maximum peak day of 190,000,000 cubic feet on a 14.65 pressure base.

The future open flow capacity at reduced pressures was computed from back pressure curves based upon the 1940 Railroad Commission tests.

Delivery capacity was assumed to be 25% of the total aggregate open flow obtained from time to time during the period covered by the study.

Based upon the above assumptions, the witness concluded the present 97 wells to be sufficient and that no more wells would be required to furnish the demand upon Canadian until 1959.

The witness stated on cross-examination that the only basic data considered by him were the drop in pressures from 1939 to 1940, and the back pressure curve based upon the 1940 midsummer tests. (Vol. LXXXV, p. 12732.)

The witness stated that he had assumed that each well would produce a minimum of 25% of its open flow, which is the maximum it would produce as a matter of law, but also stated that it was conceivable, as a matter of fact, that every well might not be able to produce the maximum volume allocated to it under the law. (Vol. LXXXV, pp. 12735, 12737.)

The witness stated that he gave no consideration to the proration policy of Canadian, whereby it allocated production to its various lessors. (Vol. LXXXV, pp. 12743, 12759.)

He stated that if this proration policy required production on a different basis, it might be necessary for Canadian to either drill more wells or change its system of proration. (Vol. LXXXV, pp. 12744, 12746.) He stated that the proration system employed by Canadian and which is based on acreage did not correspond with the assumptions made as the basis of his study, and that this fact makes the study less practical, and also that it would be impossible for Canadian to correlate its system of proration among its various lessors to his study. (Vol. LXXXV, p. 12749.)

The witness stated that he did not consider any increase in the peak-day demand in excess of 190,000,000 cubic feet on a 14.65 pressure base. (Vol. LXXXV, p. 12764.) (Watson had previously testified that on December 13, 1940, the peak demand upon Canadian was 208,000,000 cubic feet, on a 14.65 pressure base.) (Vol. LXXXV, p. 12769.)

The witness stated that Hendee had estimated an average

peak month of 242,000,000 cubic feet per day on a 14.65 base, but that he did not consider this additional load in his study. (Vol. LXXXV, pp. 12770-12771.) He also stated that this peak month, as estimated by Hendee, would likely result in a peak day of approximately 300,000,000 cubic feet on a 14.65 pressure base. (Vol. LXXXV, p. 12773.) The witness further stated that if he had considered Hendee's estimate of the peak-day demand for the future, this alone would have required 50% more wells than his study indicates. (Vol. LXXXVI, pp. 12947-12949.)

The witness also stated that if he had considered the increase in volume of production as estimated by Hendee, this alone would have required 40% more wells than his study indicates. (Vol. LXXXVI, p. 12950.)

The witness stated that he gave no consideration whatsoever to wells that would be off of production on peak days (Vol. LXXXV, p. 12775), and if he had considered this he might have required still more wells. (Vol. LXXXVI, p. 12951.)

The witness stated that he gave no consideration to the size of pipe lines and pressures that would be necessary on peak days, and that he knew of at least one well that would produce little, if any, gas into the pipe line on the peak days, and that there might be others, but he made no study to determine this fact. (Vol. LXXXV, pp. 12777-12780, 12783.)

The witness stated that he had given no consideration to the fact that some wells might not be able to produce on peak days, because gathering lines might be out of service by reason of freezing or otherwise. (Vol. LXXXV, p. 12787.)

The witness stated that he had given no consideration to the fact that operating difficulties will increase as pressures become lower. (Vol. LXXXV, p. 12787.)

The witness stated that he had given no consideration to the fact that as wells cave in and smaller casing is placed in the wells, such wells will thereafter produce smaller volumes of gas. (Vol. LXXXV, pp. 12788-12789.)

The witness stated that in his Exhibit 182, wherein he

made a study of the volume of gas that would be produced from Canadian wells to a certain abandonment pressure, he had considered surrounding wells which affected the pressures upon the Canadian wells. The consideration of these surrounding wells showed a pressure decline of 15.6 pounds from 1938 to 1939, but that notwithstanding this, he had used a pressure decline of only 8.6 pounds as the basis for his study in Exhibit 197, because he had considered Canadian wells only, and not the surrounding wells. He said he could have used the Canadian wells, only, in his study in Exhibit 182, but used the surrounding wells because of their effect on Canadian wells, and because this practice constituted a more conservative approach to the problem. (Vol. LXXXV, pp. 12804-12823.) He also stated that if he had used the same pressure decline figure in Exhibit 197 that he had used in Exhibit 182, the number of wells required over the period studied in Exhibit 197 would have increased almost 100% on this account alone. (Vol. LXXXVI, pp. 12946-12947).

The witness stated that he had made no allowance in his study for increased production, as estimated by Hendee, and had made no allowance for a correspondingly greater pressure drop as a result of the increase in production. He stated that he had assumed only an annual production of 49,000,000,000 cubic feet on a 14.65 pressure base, and that if the production increased, the pressure loss would be proportionately greater, and the period for which the present wells would be sufficient would be correspondingly shorter. (Vol LXXXV, p. 12824.) He also admitted that Hendee's estimate of future production indicated a larger volume than he had assumed, without any additions whatsoever for the Milwaukee market. (Vol. LXXXV, p. 12826.)

The witness stated that he did not consider wells that would be required to prevent a termination of leases (Vol. LXXXVI, p. 12932), and that he did not take into account wells that would be required in order to comply with legal obligations to develop leases pursuant to the covenants to reasonably develop, or otherwise. (Vol. LXXXVI, pp. 12932-12933.)

The witness stated that his study did not contemplate any

practical operating problems that confronted the producer of natural gas (Vol. LXXXVI, p. 12952), but that his study merely contemplated the volume that the various wells would produce, without any regard to operating conditions confronting the producer from time to time. (Vol. LXXXV, p. 12784.)

Commission Witness Stevens also sponsored Exhibit 252, which is an availability study based upon 55 wells connected, or to be connected, to the Denver Line.

Exhibit 252, including the tables at the end thereof, but excluding the statement of the witness at the beginning thereof and the charts at the end thereof, follows:

BAD PRINT

CANADIAN RIVER GAS COMPANY
ANALYSIS OF BACK PRESSURE DATA - CONSTRUCTION OF WEIGHTED AVERAGE RATE OF DECLINE
BASED ON EXISTING WELLS CONNECTED OR TO BE CONNECTED TO DENVER LINE IN 1940 OR SOON THEREAFTER

	Press. 1940 Gauge	G.D.	Pf	"Q" MCF/24 Hr. 14.65	Ordinate "C" Values MCF At 100 M	At 10 M	O.F. in % of Total	Wt. Av. Flow-Pressure Factor At 100 M	At 10 M	Wt. Av. "n" Value	Abs. O.F. x Abs. Form. Press.	Wt. Av. O.F. MMCF
artley Co. Quad I												
Wt. Av. Well				8.076	4.529	.734		.111	.018	.7901851		8.076
Total 3 Wells	1218.7	6636	1357.8	24.0[illegible]			2.448			.7901851	10966	
Arithmetical Av. Well	406.2		452.33	8.[illegible]	4.515	.685						
oore Co. Quad I												
Wt. Av. Well				26.261	18.364	3.310		1.969	.[illegible]	.7441363		26.261
Total 4 Wells	1469.1	6218	1613.2	105.35			10.722			.7441363	42364	
Arithmetical Av. Well	367.3		403.3	26.34	18.00	3.18						
oore Co. Quad II												
Wt. Av. Well				29.127	20.183	3.502		6.040	1.048	.7607063		29.127
Total 10 Wells	3674.0	16905	4062.9	294.05			29.928			.7607063	118340	
Arithmetical Av. Well	367.4		406.29	29.41	20.65	3.193						
oore Co. Quad III												
Wt. Av. Well				8.376	5.266	.908		.405	.070	.7633014		8.376
Total 9 Wells	3495.6	18122	3870.8	75.65			7.699			.7633014	32423	
Arithmetical Av. Well	333.7		430.1	8.41	5.21	.9						
otter Co. Quad II												
Wt. Av. Well				14.948	10.455	2.358		1.462	.329	.6470955		14.948
Total 9 Wells	3524.55	14160	3851.5	147.41			15.985			.6470955	57278	
Arithmetical Av. Well	371.52		425.7	15.3	10.45	2.25						
otter Co. Quad III												
Wt. Av. Well				14.394	8.473	1.271		.078	.147	.5235069		14.394
Total 8 Wells	3149.6	16009	3437.5	113.42			11.543			.8235069	49478	
Arithmetical Av. Well	393.7		424.7	14.18	8.35	1.26						
otal Quadrants 43 Wells												
Wt. Av. Well		1817	404.05									17.892
Total Wells	16529.55	78140	17374.0	749.93							310249	
Arithmetical Av. Well	384.41	1817	404.05	17.44								
ells to be Added 1940												
Wt. Av. Well				19.019	12.892	2.207		3.047	.523	.7658723		19.019
Total Wells 12 Wells	4530.7	21910	4990.56	232.62			23.675			.7658723	94914	
Arithmetical Av. Well	377.56											
			415.38	19.395	12.875	2.17						
otal Quadrants 55 Wells												
Wt. Av. Well	374.71	1819	412.97	18.143				14.012	2.490	.7503008		18.143
Total Wells 55	21060.25	100060	22364.58	982.55			100.000	14.012	2.490	.7503008	405763	
Arithmetical Av. Well	382.95	1819	406.63	17.86	11.59	2.02	100.000					

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Exhibit No. 252

Table [illegible]

CANADIAN RIVER GAS COMPANY

ANALYSIS OF BACK PRESSURE DATA - CONSTRUCTION OF WEIGHTED AVERAGE RATE OF DECLINE

BASED ON EXISTING WELLS CONNECTED OR TO BE CONNECTED TO DENVER LINE IN 1950 OR SOON THEREAFTER

Ordinate "Q" Values MMCF At 100 M	Ordinate "Q" Values MMCF At 10 M	O.F. in % of Total	Wt. Av. Flow-Pressure Factor At 100 M	Wt. Av. Flow-Pressure Factor At 10 M	Wt. Av. "n" Value	Abs. O.F. x Abs. Form. Press.	Wt. Av. O.F. MMCF	Wt. Av. Form. Press. "P"	Adopted Press. Factor	Calculated "Q" Values Av. Well Curve At 10 M	Calculated "Q" Values Av. Well Curve At 100 M	Total Group Curve At 10 M	Total Group Curve At 100 M
4.529	.734		.111	.018	.7901851		8.076	455.9?	207.91	.734	4.529		
		2.448			.7901851	10966			207.91			2.136	13.482
4.315	.685								211.6			2.056	13.26
18.364	3.310		3.969	.655	.7441363		26.261	402.13	161.71	3.310	18.364		
		10.722			.7441363	42364			161.71			13.279	73.673
18.00	3.13								162.55			[illegible]	[illegible]
20.183	3.502		6.046	1.048	.7607063		29.127	402.449	161.97	3.502	20.183		
		29.923			.7607063	118340			161.97			35.351	203.75
20.65	3.133								165.07			31.9?	206.45
5.266	.908		.405	.070	.7633014		5.376	428.592	183.69	.908	5.266		
		7.699			.7633014	32423			183.69			8.202	47.56
5.21	.9								185.0			8.06	46.86
10.455	2.356		1.462	.329	.6470955		14.948	416.9?	173.76	2.356	10.455		
		13.985			.6470955	57278			173.76			21.660	96.105
10.45	2.25								181.2			20.22	94.0?
8.473	1.271		.978	.147	.8235069		14.394	436.24	190.31	1.271	8.473		
		11.543			.8235069	49478			190.31			10.024	66.766
8.35	1.26								191.6			10.08?	66.92
							17.892	414.50	171.81				
						310849			171.81				
12.872	2.207		3.047	.523	.7658723		19.019	408.??	166.48	2.207	12.872		
		23.675			.7658723	94914			166.48			26.992	157.44
12.875	2.17								172.75			26.045	154.54
			14.012	2.490	.7503008		18.143	412.97	170.54	2.160	12.155		
		100.000	14.012	2.490	.7503008	405763			170.54			116.980	658.29
11.59	2.02	100.000							165.35			110.4?5	6??.04

CANADIAN RIVER GAS COMPANY

FORECAST OF DECLINE OF AVAILABILITY - WELLS CONNECTED OR TO BE CONNECTED TO DENVER LINE 1940, OR SOON T

14.65#

Year	Years from 1940	Av. Pressure Gauge	Denver Line Anticipated Annual Req. Cc. Estimate	Corresponding Prod. of Wells Supplying Denver Line 55 Wells Billions Cu. Ft.	Annual Press. Loss @ 4.13758 Bill./lb.	Corresponding Weighted Av. Pressures: Well Head	Well Head Abs.	Form. Press. (1.06515)
1	2	3	4	5	6	7	8	9
Mid Year 1939		390.27						
Mid Year 1940		382.95			(2.9# to End 1940)	374.71	387.71	412.97
End Year 1940		380.05	22.209			371.81	384.81	409.88
1941	1	372.37	23.945	31.780	7.68	364.13	377.13	401.70
1942	2	364.69	23.952	31.787	7.68	356.45	369.45	393.52
1943	3	356.84	24.642	32.477	7.85	348.6	361.6	385.16
1944	4	348.87	25.150	32.985	7.97	340.63	353.63	376.67
1945	5	340.78	25.653	33.488	8.09	332.54	345.54	368.05
1946	6	332.69	25.653	33.488	8.09	324.45	337.45	359.4
1947	7	324.60	25.653	33.488	8.09	316.30	329.36	350.82
1948	8	316.51	25.653	33.488	8.09	308.27	321.27	342.20
1949	9	308.42	25.653	33.488	8.09	300.18	313.18	333.58
1950	10	300.33	25.653	33.488	8.09	292.09	305.09	324.97
1951	11	292.24	25.653	33.488	8.09	284.00	297.00	316.35
1952	12	284.15	25.653	33.488	8.09	275.91	288.90	307.72
1953	13	276.06	25.653	33.488	8.09	267.82	280.28	298.54
1954	14	267.97	25.653	33.488	8.09	259.73	272.73	290.50
1955	15	259.88	25.653	33.488	8.09	251.64	264.64	281.88
1956	16	251.79	25.653	33.488	8.09	243.55	256.55	273.26
1957	17	243.70	25.653	33.488	8.09	235.46	248.46	264.65
1959	18	235.61	25.653	33.488	8.09	227.37	240.37	256.03

Note: Col. 5 includes Denver line requirements and other production of wells involved. The difference between this figure and Col. 4 goes to Amarillo and Chicago during other times. Production of these wells is necessarily considered in order to obtain pressure loss and pressure for future years, at which availability is to be observed with reference to the assumed 130 MM. maximum 24 Hr. demand.

Exhibit No. 252

Table II

CANADIAN RIVER GAS COMPANY

DECLINE OF AVAILABILITY - WELLS CONNECTED OR TO BE CONNECTED TO DENVER LINE 1940, OR SOON THEREAFTER

14.65#

Denver Line Anticipated Annual Req. Cc. Estimate	Corresponding Prod. of Wells Supplying Denver Line 55 Wells Billions Cu. Ft.	Annual Press. Loss @ 4.13758 Bill./lb.	Corresponding Weighted Av. Pressures Well Head	Well Head Abs.	Form. Press. (1.06515)	Adopted Pressure Factor M	Total Capacity MMCF	Availability at 25% MMCF
4	5	6	7	8	9	10	11	12
		(2.9# to End 1940)	374.71	387.71	412.97	170.54	982.55	245.64
22.209			371.81	384.81	409.88	168.00	970	242.50
23.945	31.780	7.68	364.13	377.13	401.70	161.36	940	235.00
23.952	31.787	7.68	356.45	369.45	393.52	154.86	910	227.50
24.642	32.477	7.85	348.6	361.6	385.16	148.35	880	220.00
25.150	32.985	7.97	340.63	353.63	376.67	141.88	850	212.50
25.653	33.488	8.09	332.54	345.54	368.05	135.46	820	205.00
25.653	33.488	8.09	324.45	337.45	359.4	129.17	790	197.50
25.653	33.488	8.09	316.30	329.36	350.82	123.07	760	190.00
25.653	33.488	8.09	308.27	321.27	342.20	117.1	735	183.75
25.653	33.488	8.09	300.18	313.18	333.58	111.28	710	177.50
25.653	33.488	8.09	292.09	305.09	324.97	105.61	680	170.00
25.653	33.488	8.09	284.00	297.00	316.35	100.08	655	163.75
25.653	33.488	8.09	275.91	288.90	307.72	94.69	630	157.50
25.653	33.488	8.09	267.82	280.28	298.54	89.13	600	150.00
25.653	33.488	8.09	259.73	272.73	290.50	84.39	575	143.75
25.653	33.488	8.09	251.64	264.64	281.88	79.46	550	137.50
25.653	33.488	8.09	243.55	256.55	273.26	74.67	530	132.50
25.653	33.488	8.09	235.46	248.46	264.65	70.04	500	125.00
25.653	33.488	8.09	227.37	240.37	256.03	65.55	480	120.00

equirements and other production of wells involved. The difference between this figure
nd Chicago during other times. Production of these wells is necessarily considered in
and pressure for future years, at which availability is to be observed with reference
m 24 Hr. demand.

Note: Data is for End of Year, Dec. 31

CANADIAN RIVER GAS COMPANY

SUMMARY – AVAILABILITY STUDY OPERATION CONDITIONS DURING MAXIMUM 24-HR. DEMAND OF 130 M.M.C.F.

BASIS OF EXISTING WELLS CONNECTED TO DENVER LINE 1940 OR TO BE CONNECTED SOON THEREAFTER, 250# ASSUMED AS SUCTION AT BIVINS STA.

14.65

Lease	Well No.	Production MM. Based on Capacity x Abs. Form. Press.	25% of Capacity		Excess of 25% of Capacity over Production		Prod. Rate % of Capacity		Work. Press. R.P. Relation at Prod. Rate (%)		Gauge Working Pressure at Well for Production Rate		Pipe Line Press. Requirement at Well	Excess of Available over Pipe Line Pre
			1942	1947	1942	1947	1942	1947	1942	1947	1942	1947		1942
		1	2	3	4	5	6	7	8	9	10	11	12	13
At Bivins Sta.					(1-2)	(1-3)					(8) x 356.45# ≠ 8.2#	(9) x 316.3# ≠ 8.2#	250.00	10-12
Bivins	A-21	3.778	5.625	4.250	1.847	.472	16.79	22.22	95.2	92.7	347.58	301.45	251.04	96.54
Masterson	A-5	3.465	5.6[illegible]	4.825	2.1[illegible]	1.360	15.47	17.95	95.7	94.7	349.36	307.78	263.71	85.65
Crawford	A-1	1.061	1.6[illegible]	1.300	.5[illegible]	[illegible]39	16.32	20.40	95.3	93.6	347.94	304.30	253.48	94.46
Bivins	A-2	1.238	2.350	1.913	1.112	.675	13.17	16.18	96.5	95.5	352.21	310.31	255.46	96.75
"	A-25	2.653	3.900	3.325	1.247	.672	17.01	19.95	95.1	93.7	347.22	304.61	266.63	80.59
"	A-4	.212	.410	.330	.198	.118	12.93	16.06	96.7	94.5	352.93	307.14	258.50	94.43
"	A-14	4.078	6.025	4.925	1.947	.847	16.90	20.70	95.3	93.5	347.94	303.98	275.75	72.19
"	B-1	3.274	4.750	4.150	1.476	.876	17.23	19.72	95.0	94.0	346.87	305.56	270.61	76.26
Beay	A-1	.857	1.300	1.050	.443	.193	16.48	20.40	95.2	93.6	347.58	304.30	258.91	88.67
Bivins	A-24	2.725	4.125	3.400	1.400	.675	16.52	20.03	95.3	93.7	347.94	304.61	261.81	86.13
Killgore	B-1	.579	.925	.780	.346	.201	15.65	18.56	95.7	94.4	349.36	306.83	261.52	87.84
"	A-1	1.895	3.350	2.900	1.455	1.005	14.14	16.34	96.3	95.3	351.50	309.67	263.75	87.75
"	A-3	.687	1.287	1.100	.600	.413	13.34	15.61	96.5	95.7	352.21	310.94	262.91	89.30
"	A-2	1.914	3.000	2.475	1.086	.561	15.95	19.33	95.5	94.2	348.63	306.19	268.63	80.00
Bivins	A-5	1.949	2.980	2.475	1.031	.526	16.38	19.69	95.3	94.0	348.94	305.56	258.93	90.01
"	A-15	.895	1.362	1.139	.467	.244	16.42	19.67	95.3	94.0	347.94	305.56	262.12	85.82
"	A-6	.597	.912	.700	.315	.103	16.36	21.32	95.3	93.7	347.94	304.61	261.21	86.73
"	A-17	.240	.337	.285	.097	.045	17.78	21.05	94.8	93.4	346.15	303.26	261.64	84.51
"	A-7	2.327	3.200	2.675	.873	.348	18.18	21.75	94.5	93.2	345.09	302.40	262.35	82.74
"	A-10	.246	.337	.258	.091	0.012	18.22	23.88	94.5	92.0	345.09	299.24	277.91	67.18
"	A-22	.450	.565	.465	.115	.015	19.91	24.19	93.8	92.0	342.59	299.24	283.19	59.40
"	A-8	.940	1.200	.990	.260	.050	19.58	23.80	94.0	92.0	343.30	299.24	284.77	58.53
"	A-9	1.375	1.750	1.388	.375	.013	19.64	24.77	94.0	91.6	343.30	297.97	286.77	56.53
Thompson	B-3	9.254	16.625	13.750	7.371	4.496	13.92	16.83	96.3	95.2	351.50	309.36	253.57 (6") 277.79 (4")	97.93 (6") 73.71 (4")
Masterson	J-1	.904	1.713	1.375	.809	.471	13.20	16.44	96.5	94.5	352.21	307.14	254.75	97.46
Crawford	B-1	1.018	1.488	1.213	.470	.195	17.11	20.99	95.1	93.4	347.22	303.66	276.42	70.80
Coughlan	A-1	1.430	2.113	1.750	.683	.320	16.92	20.42	95.1	93.6	347.22	304.30	278.37	68.85
Thompson	B-1	.240	.440	.365	.200	.125	13.64	16.44	96.4	95.3	351.86	309.67	259.04	92.82
"	A-3	4.385	8.250	7.325	3.865	2.940	13.29	14.97	96.5	95.9	352.21	311.57	262.89 (6") 274.71 (4")	89.32 (6") 77.50 (4")
"	A-1	8.890	18.000	14.750	9.110	5.860	12.35	15.07	96.8	95.9	353.28	311.57	266.83 (6") 295.42 (4")	86.45 (6") 57.86 (4")
"	A-2	11.404	21.250	18.250	9.846	6.846	13.42	15.62	96.6	95.7	352.57	310.94	266.87	85.70
"	B-2	2.891	5.200	4.850	2.309	1.959	13.90	14.90	96.3	95.9	351.50	311.57	266.82	84.68
Sneed	A-1	2.234	4.125	3.325	1.891	1.091	13.54	16.80	96.5	95.2	352.21	309.36	263.01	89.20
Masterson	K-1	.798	1.288	1.040	.490	.242	15.50	19.23	95.7	94.0	349.36	305.56	253.57	95.79
Sneed	B-1	2.412	4.500	3.500	2.088	1.088	13.40	17.23	96.5	95.0	352.21	308.73	255.09	97.12
"	C-1	1.677	3.000	2.375	1.325	.698	13.98	17.65	96.8	94.8	353.28	308.09	263.85	89.43
"	A-2	4.101	7.800	6.450	3.699	2.349	13.14	15.90	96.6	95.5	352.57	310.31	262.45	90.12
Masterson	[illegible]-1	.457	.863	.713	.406	.256	13.25	16.04	96.5	95.5	352.21	310.31	253.91	98.30
Read	A-2	5.486	10.625	9.125	5.139	3.639	12.91	15.03	96.6	95.9	352.57	311.57	254.40	98.17
Masterson	A-4	5.952	11.000	9.000	5.048	3.048	13.53	16.53	96.5	95.3	352.21	309.67	259.65	92.56
"	B-5	.670	.938	.700	.268	.030	17.87	23.93	94.7	92.0	345.80	299.24	256.37	89.43
"	A-1	.958	1.875	1.500	.917	.542	12.77	15.97	96.7	95.5	352.93	310.31	254.65	98.33
Fee	A-1	2.825	5.375	4.500	2.550	1.675	13.14	15.69	96.6	95.7	352.57	310.94	258.36	94.21
Read	A-1	1.192	2.325	1.900	1.133	.708	12.82	15.68	96.7	95.7	352.93	310.94	255.71	97.22
Sneed	D-1	.440	1.188	1.013	.748	.573	9.26	10.86	98.0	97.5	357.56	316.63	255.24	102.32
Masterson	B-2	2.838	5.375	4.400	2.537	1.562	13.2	16.13	96.5	94.5	352.21	307.14	255.35	96.86
"	A-3	2.557	5.000	3.900	2.443	1.343	12.79	16.39	96.6	95.3	352.57	309.64	256.02	96.55
													(Biv.) 250.00	
Masterson	C-3	.906	1.400	1.125	.494	.219	16.18	20.13	95.5	93.7	348.65	304.61	268.56	80.09
"	D-4	9.637	17.750	15.250	8.113	5.613	13.57	15.80	96.5	95.7	352.21	310.94	276.31	75.90
"	G-2	.453	.825	.663	.372	.210	13.73	17.09	96.4	95.1	351.86	309.04	273.06	78.80
"	H-1	.270	.413	.358	.143	.088	16.36	18.88	95.3	94.3	347.94	307.14	273.35	74.59
"	I-1	3.102	4.875	4.325	1.773	1.223	15.91	17.93	95.5	94.7	348.65	307.78	278.15	70.50
"	L-1	.315	.480	.373	.165	.058	16.41	21.14	95.3	93.8	347.94	304.93	276.96	70.98
"	F-1	.446	.675	.558	.229	.112	16.52	19.39	95.2	94.1	347.58	305.88	277.47	70.11
"	N	2.423	4.200	3.556	1.777	1.133	14.42	17.06	96.1	95.1	350.79	309.04	291.32	59.47
Total 55 Wells		130.000	227.889	190.375	97.889	60.375	14.26	17.07	96.2	95.1	351.14	309.04	264.91	86.23

Note: Values of Col. 15 are minimum.

BAD PRINT

Exhibit No. 252

d Year, Dec. 31

CANADIAN RIVER GAS COMPANY

SUMMARY - AVAILABILITY STUDY OPERATION CONDITIONS DURING MAXIMUM 24-HR. DEMAND OF 130 M.M.C.F.

BASIS OF EXISTING WELLS CONNECTED TO DENVER LINE 1940 OR TO BE CONNECTED SOON THEREAFTER, 250# ASSUMED AS SUCTION AT BIVINS STA.

14.65

uction MM. on Capacity . norm. Press.	25% of Capacity		Excess of 25% of Capacity over Production		Prod. Rate of Capacity		Work. Press. R.P. Relation at Prod. Rate (%)		Gauge Working Pressure at Well for Production Rate		Pipe Line Press. Requirement at Well	Excess of Available Working Pressure over Pipe Line Press. Req. at Well		Years After 1947 To:	
	1942	1947	1942	1947	1942	1947	1942	1947	1942	1947		1942	1947	Failure of 25% Capacity (Min.)	Failure of Work Press.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
			(1-2)	(1-3)					(8) x 356.45# ≠ 8.24#	(9) x 316.3# ≠ 8.24#	250.00	10-12	11-12	$\frac{(5)}{(4)-(5)\div 5}$	$\frac{(14)}{(13)-(14)\div 5}$
3.778	5.625	4.250	1,847	.472	16.79	22.22	95.2	92.7	347.58	301.45	251.04	96.54	50.41	1.7	5.5
3.465	5.600	4.825	2.135	1.360	15.47	17.95	95.7	94.7	349.36	307.78	263.71	85.65	44.07	8.8	5.3
1.061	1.625	1.300	.564	.239	16.32	20.40	95.3	93.6	347.94	304.30	253.48	94.46	50.82	3.7	5.8
1.238	2.350	1.913	1.112	.675	13.17	16.18	96.5	95.5	352.21	310.31	255.46	96.75	54.85	7.8	6.5
2.653	3.900	3.325	1.247	.672	17.01	19.95	95.1	93.7	347.22	304.61	266.63	80.59	37.98	5.8	4.5
.212	.410	.330	.198	.118	12.93	16.06	96.7	94.5	352.93	307.14	258.50	94.43	48.64	7.3	5.3
4.078	6.025	4.925	1.947	.847	16.90	20.70	95.3	93.5	347.94	303.98	275.75	72.19	28.23	3.7	3.2
3.274	4.750	4.150	1.476	.876	17.23	19.72	95.0	94.0	346.87	305.56	270.61	76.26	34.95	7.3	4.2
.857	1.300	1.050	.443	.193	16.48	20.40	95.2	93.6	347.58	304.30	258.91	88.67	45.39	3.9	5.2
2.725	4.125	3.400	1.400	.675	16.52	20.03	95.3	93.7	347.94	304.61	261.81	86.13	42.80	4.6	4.9
.579	.925	.780	.346	.201	15.65	18.56	95.7	94.4	349.36	306.83	261.52	87.84	45.31	6.9	5.3
1.895	3.350	2.900	1.455	1.005	14.14	16.34	96.3	95.3	351.50	309.67	263.75	87.75	45.92	10.6	5.5
.687	1.287	1.100	.600	.413	13.34	15.61	96.5	95.7	352.21	310.94	262.91	89.30	48.03	11.0	5.8
1.914	3.000	2.475	1,086	.561	15.95	19.33	95.5	[illegible]	348.63	306.19	268.63	80.00	37.56	5.3	4.4
1.949	2.980	2.475	1.031	.526	16.38	19.69	95.3	94.0	348.94	305.56	258.93	90.01	46.63	5.2	5.4
.895	1.362	1.139	.467	.244	16.42	19.67	95.3	94.0	347.94	305.56	262.12	85.82	43.44	5.5	5.1
.597	.912	.700	.315	.103	16.36	21.32	95.3	93.7	347.94	304.61	261.21	86.73	43.40	2.4	4.9
.240	.337	.285	.097	.045	17.78	21.05	94.8	93.4	346.15	303.26	261.64	84.51	41.62	4.3	4.8
2.327	3.200	2.675	.873	.348	18.18	21.75	94.5	93.2	345.09	302.40	262.35	82.74	40.05	3.3	4.7
.246	.337	.258	.091	.012	18.22	23.88	94.5	92.0	345.09	299.24	277.91	67.18	21.33	1.0	2.3
.450	.565	.465	.115	.015	19.91	21.19	93.8	92.0	342.59	299.24	283.19	59.40	16.15	1.0	1.9
.940	1.200	.990	.260	.050	19.58	23.80	94.0	92.0	343.30	299.24	284.77	58.53	14.47	1.0	1.6
1.375	1.750	1.388	.375	.013	19.64	24.77	94.0	91.6	343.30	297.97	286.77	56.53	11.80	2.0	1.2
9.254	16.625	13.750	7.371	4.496	13.92	16.83	96.3	95.2	351.50	309.36	253.57 (6") 277.79 (4")	97.93 (6") 73.71 (4")	55.79 (6") 31.57 (4")	7.9	6.6 (6") 3.7 (4")
.904	1.713	1.375	.809	.471	13.20	16.44	96.5	94.5	352.21	307.14	254.75	97.46	52.39	7.0	5.8
1.018	1.488	1.213	.470	.195	17.11	20.99	95.1	93.4	347.22	303.66	276.42	70.80	27.24	3.5	3.1
1.430	2.113	1.750	.683	.320	16.92	20.42	95.1	93.6	347.22	304.30	278.37	68.85	25.93	4.4	3.0
.240	.440	.365	.200	.125	13.64	16.44	96.4	95.3	351.86	309.67	259.04	92.82	50.63	8.3	6.0
4.385	8.250	7.325	3.865	2.940	13.29	14.97	96.5	95.9	352.21	311.57	262.89 (6") 274.71 (4")	89.32 (6") 77.50 (4")	48.68 (6") 36.86 (4")	15.9	6.0 (6") 4.5 (4")
8.890	18.000	14.750	9.110	5.860	12.35	15.07	96.8	95.9	353.28	311.57	266.83 (6") 295.42 (4")	86.45 (6") 57.86 (4")	44.74 (6") 16.15 (4")	9.7	5.4 (6") 1.9 (4")
11.404	21.250	18.250	9.846	6.846	13.42	15.62	96.6	95.7	352.57	310.94	266.87	85.70	44.07	11.4	5.3
2.891	5.200	4.850	2.309	1.959	13.90	14.90	96.3	95.9	351.50	311.57	266.82	84.68	44.74	28.0	5.5
2.234	4.125	3.325	1,891	1.091	13.54	16.80	96.5	95.2	352.21	309.36	263.01	89.20	46.35	6.8	5.4
.798	1.288	1.040	.490	.242	15.50	19.23	95.7	94.0	349.36	305.56	253.57	95.79	51.99	4.8	6.1
2.412	4.500	3.500	2.088	1.088	13.40	17.23	96.5	95.0	352.21	308.73	255.09	97.12	53.64	5.4	6.1
1.677	3.000	2.375	1.323	.698	13.98	17.65	96.8	94.8	353.28	308.09	263.85	89.43	44.24	6.1	4.9
4.101	7.800	6.450	3.699	2.349	13.14	15.90	96.6	95.5	352.57	310.31	262.45	90.12	47.86	8.7	5.6
.457	.863	.713	.406	.256	13.25	16.04	96.5	95.5	352.21	310.31	253.91	98.30	56.40	8.5	6.7
5.486	10.625	9.125	5.139	3.639	12.91	15.03	96.6	95.9	352.57	311.57	254.40	98.17	57.17	12.1	7.1
5.952	11.000	9.000	5.048	3.048	13.53	16.53	96.5	95.3	352.21	309.67	259.65	92.56	50.02	7.6	5.9
.670	.938	.700	.268	.030	17.87	23.93	94.7	92.0	345.80	299.24	256.37	89.43	42.87	.6	5.0
.958	1.875	1.500	.917	.542	12.77	15.97	96.7	95.5	352.93	310.31	254.65	98.33	55.71	7.2	6.5
2.825	5.375	4.500	2.550	1.675	13.14	15.69	96.6	95.7	352.57	310.94	258.36	94.21	52.58	9.5	6.3
1.192	2.325	1.900	1.133	.708	12.82	15.68	96.7	95.7	352.93	310.94	255.71	97.22	55.23	8.7	6.6
.440	1.188	1.013	.748	.573	9.26	10.86	98.0	97.5	357.56	316.63	255.24	102.32	61.39	16.4	6.8
2.838	5.375	4.400	2,537	1,562	13.2	16.13	96.5	94.5	352.21	307.14	255.35	96.86	51.79	8.0	5.7
2.557	5.000	3.900	2.443	1.343	12.79	16.39	96.6	95.3	352.57	309.64	256.02	96.55	53.62	6.1	6.2
											(Biv.) 250.00				
.906	1.400	1.125	.494	.219	16.18	20.13	95.5	93.7	348.65	304.61	268.56	80.09	36.05	5.0	4.1
9.637	17.750	15.250	8.113	5.613	13.57	15.80	96.5	95.7	352.21	310.94	276.31	75.90	34.63	11.2	4.2
.453	.825	.663	.372	.210	13.73	17.09	96.4	95.1	351.86	309.04	273.06	78.80	35.98	6.5	4.3
.270	.413	.358	.143	.088	16.36	18.88	95.3	94.3	347.94	307.14	273.35	74.59	33.79	8.0	4.2
3.102	4.875	4.425	1.773	1.223	15.91	17.93	95.5	94.7	348.65	307.78	278.15	70.50	29.63	11.4	3.6
.315	.480	.373	.165	.058	[illegible]	21.14	95.3	93.8	347.94	304.93	276.96	70.98	27.97	2.7	3.3
.446	.675	.558	.229	.112	[illegible]	19.39	95.2	94.1	347.58	305.88	277.47	70.11	28.41	4.8	3.4
2.423	4.200	3.556	1.777	1.133	[illegible]	17.06	96.1	95.1	350.79	309.04	291.32	59.47	17.72	8.8	2.1
130.000	227.869	190.375	97.889	60.375	14.26	17.07	96.2	95.1	351.14	309.04	264.91	86.23	44.13	8.0	5.24

; are minimum.

In connection with Exhibit 252 MR. STEVENS testified on direct examination, in part, as follows: (Vol. LXXXVI, pp. 12976-12993.)

A: "Availability Study—Mid-Year 1940. Wells and Lines Supplying Denver Line, Connected or To Be Connected in 1940 or Soon Thereafter.

The availability study of existing wells and the study of lines supplying the Denver line has been carried out to determine:

1. The amount of capacity now available from wells connected or to be connected in 1940 or shortly thereafter. The wells, numbering 55, include 43 wells connected December 31, 1939 and other wells to be added in 1940 or shortly thereafter as follows:

(a) Three old wells, Bivins A-9 and A-22, and Masterson B-5. These wells were previously unconnected to the Denver line. These wells are described by the company as about to be connected to the system and directly available to the Denver line.

(b) Six old wells, Masterson B-2, A-3, A-1, Fee A-1, Read A-1, and Sneed D-1. The gas from these wells is to be made available to the Denver line by placement of a main line gate on F-1 22" at a point just east of where Masterson A-3 is connected to that line. Gas from these wells previously went to the Chicago market, and under 24-hour demand conditions gas from these wells will be available to the Denver line, as stated by a company representative. As this study is of conditions of maximum 24-hour demand, these wells are necessarily included.

(c) Three new wells drilled in 1940, connected in that year or soon to be connected. The wells taken as serving the Denver line were those *shose* production was entirely or almost entirely diverted to the Denver line in 1939 and 1940, and whose entire capacity can be assumed to be available under conditions of maximum 24-hour demand. In addition there are included the new wells of 1940 and the old wells newly available to the Denver line as described under (a) and (b).

2. The amount of capacity available from the 55 wells at

future dates, at pressures expected to exist at those future dates. The year 1947 is taken concluding the period directly in question, in accordance with the time basis adopted by the company, and with respect to certain claims made by the company.

3. The approximate dates at which additional wells are necessary to supply the maximum 24-hour demand of the Denver line.

4. The operating conditions of field lines as to pressure, and of wells as to working pressure, for the flow involved during the maximum 24-hour demand. These conditions will be determined primarily with respect to 1942 and 1947.

5. Whether additions to compressing capacity are necessary under flow conditions of the maximum 24-hour demand.

The principal assumptions on which this study is based are as follows:

1. Maximum 24-hour demand of 130 MMCF on wells supplying the Denver/line. This is in excess of the demand stated by any company witness in the testimony. Therefore, this assumed volume of flow imposes working conditions on wells, lines and compressing equipment in excess of probability and makes any results derived for those factors definitely conservative.

2. Suction pressure of 250 pounds at Bivins station. Imposing this condition as suction pressure at Bivins likewise imposes operating conditions at the wells which are regarded as stringent for the obvious reason that to maintain the comparable well working pressure, the rock pressure must be at a correspondingly higher pressure. The stringent assumptions made thus far are in line with the adopted point of view of being conservative with respect to the company interest and on these conservative assumptions working to well conditions and well requirements. By 'conservative with respect to company interest' it is meant that it is not the point of view of this study merely to show a result contrary to that shown by the company, but to set up a producing condition which is equal or conservatively greater than that which is likely to be imposed in fact; and to proceed with analysis on the basis of available factual data. The

results of a study from this point of view are hence conservative in that they include a margin of ability to supply, over the demands set up by the assumed conditions. This margin may be expressed in capacity, in pressure, or in time, as will be seen later.

3. The lines serving to gather gas to the Bivins station are assumed to be:

(a) Those lines used for this purpose December 31, 1939.

(b) Lines laid to connect new wells to the system.

(c) Replacement by 10″ line of line F-562 6″ and 8″ and relaying the 6″ taken up as an extension westward of the 10″ mentioned. (Mr. Watson)

(d) Connection of Bivins A-9, A-10, and A-8 by newly laid 4″ line as described by Mr. Watson.

(e) Connection of Masterson B-5 to system by a 6″ line. The location of this line was not specified by Mr. Watson. The assumption reasonable to this problem was made, that it connected into the end of F-20 8″ near Masterson A-4.

(f) Referring to the north, west, and east laterals lying generally northeast of Bivins station, connected to the Thompson, Sneed and Read wells; Mr. Watson stated that this branch was overloaded during peak days. This is to be expected after observing the size of wells, their probable output and the size of lines. Therefore, an assumption was made to provide relief of F-2 12″ by terminating F-10 8″ at Snead A-1 and eliminating F-10 6″ to the Y at whose extremes are located Snead C-1 and A-2, also eliminating F-527 4″ to Snead B-1, also eliminating F-10 6″ from Sneed A-2 to Read A-2. These eliminations of line were assumed to be replaced by two lengths of 10″ line, one from Sneed B-1 to junction F-1 22″ at the point where it angles to the southwest, and the other from Read A-2 south to junction with F-1 22″. This assumption as to lines is the only one not contemplated in the testimony. It is held to be justified as an assumption from the point of view of relief of the overloaded line F-2 12″ resulting from the capacity of the wells connected to it, and from the point of view of costs of the added 4.6 miles of 10″, compared to cost of compres-

sor units. While hindsight is better than foresight in laying out a pipeline system, it is nevertheless difficult to understand why this part of the system was laid out in its present relation. The result is that natural well pressures are unduly lost in friction, which loss in pressure has to be restored artifically by compressors at a cost for their investment and for their operation. This loss is obviated by the assumed short 10″ lines. The reduction in friction loss over the present system would delay the installation of compressing units. Hence the cost of the assumed 10″ line is directly comparable to the related compressor costs involved. Another result of the assumed 10″ line aside from the relief of F-2 12″ is to introduce gas from Sneed B-1, C-1, A-1 and Read A-2, into the large line F-1 22″ at the nearest possible point. This line because of its size has very little friction loss for the volume of flow involved in the maximum 24-hour demand of 130 MMCF. The assumed 10″ lines as described is one solution but not the only one, to relief of F-2 12″. Also there is no intention of dictating the company's pipeline construction. However, it is pertinent to the matter of investment that a simple change in the system would utilize natural pressure, use a large 22″ line to better operating advantage, and lengthen the period before additional compressor units are necessary.

(g) Referring to the relation of F-1 22″ and the parallel line F-19 12″, and the fact that they can be used separately or in combination, it is assumed that they can be used separately or in combination, it is assumed that they be used in the manner productive of the minimum friction loss. The assumption therefore made for the pipeline problem is that F-19 12″ will run the gas from F-14 10″ which can be placed in direct connection and to which are connected the group of Masterson wells southeast of Bivins station.

The flow of line F-537 4″ is assumed to be connected to F-1 22″, though it could be diverted to F-19 12″ with no particular disadvantage.

It should be kept in mind that the pipeline system can be operated in such combination between its parts as to give a *maximum* or minimum pressure drop, and it is to be presumed that the company would use the field system in such

combination as would provide the minimum fraction loss, and thus provide the maximum suction pressure at Bivins station.

The question of additions of compressor capacity and well capacity divides into several problems. The only conditions of the problem which are definite at this point are at the compressor station, where 250 pounds suction is assumed and 130 MMCF is to be handled. While the compressor station is the terminus of conditions of flow in the line and of the wells, it will be considered as the starting point in the problem of availability as it prescribes the conditions to which all the factors of flow are related, both as to the line and as to the wells.

The objectives of the study are accomplished by calculation from basic data and illustrated by curves where possible.

The general plan of this study is to start with 130 MMCF and 250 pounds at the station, and work toward the wells. The obvious result of this progress toward the wells will be an increase in pressure in the lines and a decreasing volume of flow. When the individual well is reached the volume will be that part of 130 MMCF contributed by the well and the pressure result will be the line pressure requirement at the well. Here the problem as to the well divides into two parts, 25% of its capacity must exceed the well's share of the 130 MMCF and the working pressure of the well when producing its share of 130 MMCF must equal or exceed the line pressure requirement calculated to be necessary. As long as this excess of capacity and pressure exists, the well will be effective in contributing its share of the 130 MM both as to capacity and working pressure. These excesses of capacity and working pressure over line pressure requirement will vary between wells. Some will fail in capacity or pressure sooner or later than others. Failure of a given well, in either capacity or pressure, does not mean another well is necessary for the system, as some other wells will easily make up the deficiency. The average condition of all wells should determine whether there is necessity of more well capacity. The excess of capacity and working pressure will be ultimately determined for each well, for the average

and for total wells, as to the years 1942 and 1947 comparable to the times claimed by the company for additions, the end of 1947 being the extreme date contemplated in all the company exhibits.

The flow in a pipeline system is a complexity of variations in pressure and volume from hour to hour, and it would indeed be absurd to say that they were uniform. Consequently it would be absurd to claim that the results of this study are intended to be minutely exact. For the conservatively assumed conditions of the study the results are claimed to be representative and illustrative of the relation of pertinent factors that can be expected within reasonable limits.

Mr. Rhodes states that the requirement of five additional 600-horsepower compressors before end of 1943, one in 1941 and one in 1942 in the present building and three in 1943 in a new building, is predicated on reduction of suction pressure at Bivins to 150 pounds. In this part of the testimony Mr. Rhodes is discussing a hypothetical 20″ line. For the present system Mr. Rhodes outlines five more 600-horsepower units before 1947, the difference being merely that of year of installation. Mr. Rhodes explains his selection of 150 pounds suction as 'purely a matter of judgment', also that Mr. Watson arrived at 'the identical conclusion at almost the identical time'. Reference was made to the Monroe and Richland gas Fields, as yardsticks for the anticipated condition in the Panhandle field. This sort of comparison is unjustified and improper, as no two gas fields or oil fields in the history of the two industries have been comparable on so broad a basis. The only valid basis of judgment for the Panhandle field is the conditions in that field alone. If other fields could be imagined to be comparable in all other respects, the volume of gas withdrawals and the size and lengths of line involved in those withdrawals would be the determining factors in the suction pressure at the compressor station. My opinion with respect to suction pressure is that it is not subject to any judgment figure but to calculation on the basis of the physical facts bearing upon it.

Mr. Rhodes states that for his assumed 150 lb. suction, he does not know what the well pressures would be. For

any volume of flow these two factors are inseparable. He states that he gave it no consideration, that it had only an indirect bearing. In my opinion the pressures at the well have a very direct bearing on the matter of suction. My opinion on this matter is that well pressures cannot be ignored, and that they should be determined within at least reasonable limits on the basis of data available to this purpose. Mr. Rhodes states that it is very difficult to maintain a suction pressure of over a third of rock pressure. This is not the case in the Panhandle field as investigation will later disclose. In any event the determination of the relation should be one of calculation rather than unsupported judgment. Mr. Rhodes states he has made no calculations of this nature. He states that the suction pressure at the present time is approximately 250 pounds and that the margin between suction pressure and pressures at the wells has been under too narrow a margin recently. It is not clear how the degree of margin of well pressure over suction pressure is known if the well pressures were not observed, as Mr. Rhodes stated.

In his testimony Mr. Rhodes stated in response to question that he did not go into the problem as far as considering withdrawals from the field. As withdrawals influence the rock pressure and for a given flow from the wells the working pressure at the wells is in a predicatible relation to rock pressure, it is clearly improper to disregard withdrawals. From the wells to the station, the pipeline problem for the flow involved obviously determines the suction pressure at the station. Mr. Rhodes states he *have* 'no specific thought' to the subject of withdrawals. It is my opinion that withdrawals must be considered, also the resulting rock pressures and related working pressures at the well, as against any sort of judgment figure or lack of similiar investigation. Mr. Rhodes later states that he doesn't know when the Bivins suction pressure will reach 150 pounds but that by 1943 he would want to be ready to take care of it. While Mr. Rhodes is at the time discussing a 20" hypothetical line, what he says is applicable in principle to the present 22" line as the difference in time for requirement of any facility is minor in degree. (Pages 3216-3221, and pages 6138-6144.)

The point of importance involved in investigation of suc-

tion pressures is, of course, whether the total of five 600-horsepower units and the accompanying expenditure are necessary as claimed by Mr. Rhodes. My opinion is that the elements of the problem pertinent to decision should be worked out on the basis of contributory factual data and that use of unsupported judgment figures is entirely improper in an engineering problem of this nature. Making the assumption of 150 pounds suction in 1943, Rhodes said he did not know when it would occur but wanted to be ready for it in 1943.

Compressor Requirements—Bivins Station.

The determination of compressor horsepower at Bivins station for the assumed conditions of maximum 24-hour demand is based on the already stated conditions of 250 pounds suction and 400 pounds discharge, for the pumping of 130 MMCF.

The horsepower required to pump 1 MMCF under those conditions is 29.34. Using 30 horsepower per MMCF as the basis of calculation, the pumping of 130 MMCF will require 3900 horsepower for the conditions stated. As 3600 horsepower is now installed at Bivins, only 300 additional horsepower is necessary for the stated conditions. This requirement would be satisfied by the installation of a 600-horsepower unit in the space stated by Mr. Rhodes to be available in the present building, with 300 horsepower in excess of requirements. In the event of finding that a suction greater than 250 pounds is possible at Bivins, the horsepower requirement at Bivins would be less, suggesting the possibility that even the 300 horsepower addition may not be necessary. However, it is not the purpose of this study to impose a narrow margin of capacity over requirements by entirely eliminating an added unit on such possibility.

With respect to the assumed conditions at Bivins, it is my opinion that a maximum of only one 600-horsepower unit is necessary, rather than the five estimated by Mr. Rhodes on the assumption of a 'judgment figure' suction of 150 pounds. The ability of the wells to maintain a suction of 250 pounds at the station constitutes the condition on which the horsepower requirement is predicated, and at this point in the study it has not been discussed. It will be investigated in a

later section. The above conclusion as to compressor requirement may be kept in mind as being dependent on the substantiation of 250 pounds suction at Bivins, this condition being a function of operating conditions in the lines and at the wells.

Well Capacities.

Mr. Watson states that for the period to end of 1947 the drilling program has developed on the basis of the whole period and not with respect to any definite year; that is, he says that by the end of 1947 the company will need a number of wells and he allocates those wells to individual years without specific analysis of the requirements of those years. Mr. Watson states that it would be 'most difficult to determine' whether a well should be drilled to supply the peak day (page 3015). In my opinion the broad basis for allocating the drilling program to individual years is improper as it attempts to introduce investment on a basis which does not inquire into the requirement for the individual year. As to being 'most difficult to determine,' that has not been found to be the case. Mr. Watson's statement indicates that the detailed work was not done to determine the yearly requirement. While considerable work is necessary to arrive at drilling requirements by years, it can be done. In fact, this analysis of future requirements has been made and constitutes a part of this study.

In determining the requirements for 1947 Mr. Watson states he used an average back pressure curve as obtained from Railway Commission tests. This curve was the result of arithmetically averaging the back pressure curves of individual wells as stated by Mr. Watson. I *repeared* this arithmetical averaging process and confirmed that the delivery curve of the average well set up by Mr. Watson was the arithmetical average of the individual well curves.

Mr. Watson continues (pages 3018, 3055) with the statement that the future drilling program is based on the average rock pressure decline of approximately 100 pounds to end of 1947. While Mr. Watson did not go into the mechanics of the use of the average back pressure curve, it is supposable that he read the average open flow corresponding to the pressure factor for the present pressure less the

assumed 100 pound decline. However, the details of the operation were not disclosed, and it was not shown in the evidence that even in 1947 on his basis that any wells were necessary.

Referring to the 100 pound assumed pressure loss to end of 1947, Mr. Watson stated (page 3056) that it was a 'judgment figure' arrived at by considering the whole field, the performance and trend of pressure of specific wells within the company's acreage and throughout the Panhandle field.

It is my opinion that consideration of parts of the field other than their own acreage is improper. The extent of the field is such that areas beyond that occupied by company acreage have no bearing on the future history of the company's wells. The company's wells should be considered in terms of their own performance, not in terms of performance of *distnat* wells.

In answer to question as to whether he considered production in determining pressure loss of 100 pounds to 1947, Mr. Watson replied that that had no bearing on what he was studying, that it had no bearing at all, that (page 3057) he was taking the trend of rock pressure decline and that he did not investigate as to its cause. Mr. Watson later stated (page 3065) that he was still of the opinion that his 'judgment figure' (of 100 pounds pressure loss to 1947) was better than one arrived at considering the company's actual past history. His reason for so concluding was that he expected ~~increased~~ drainage in the future.

Ir is my opinion that use of 'judgment figure' in selection of the pressure loss is very unsatisfactory as compared with arriving at that loss from consideration of past production. As to have the most direct bearing on pressure. Removal of gas is the simple fact that does cause loss of pressure.

Referring to the arithmetical average back pressure curve which Mr. Watson states he uses, but which use he does not detail, in determining wells necessary before 1947, it is my opinion that this arithmetical average curve is unsatisfactory for forecasting the decline in open flow or ability to deliver gas. The reason for considering this arithmetical average curve unsatisfactory lies in the nature of any arithmetical average; it does not weigh the pertinent factors of

capacity and pressure. Where those factors are diverse in value as they are with respect to the company's wells, they should be weighed in terms of those factors, the result being expressed by s straight line curve on log paper. This weighted curve is the weighted rate of decline. This method of deriving a weighted rate of decline is considered superior to the ~~arithmetical~~ method, for the same reason that any weighted average of diverse components of any nature is superior to the arithmetical average of those components. The weighting method involves considerably more work than the arithmetical method. However, its results are considered more applicable to the forecasting of decline in availability and determination of a drilling program, and I have worked out its application to the existing wells connected to or to be connected to the Denver line.

In my opinion the matter of production is inseparable from pressure loss, and pressure loss from wells to the compressor station is inseparable from station suction pressure.

It is my opinion that whenever possible, all available factual data bearing on pertinent factors contributory to a solution of the problem of compressr and well additions, should be used. The company witnesses Rhodes and Watson have not done this.

* * * * *

Continuing, MR. STEVENS further testified with reference to Exhibit 252: (Vol. LXXXVI, pp. 13011-13013.)

Referring to the excess of available working pressure over line requirement, the average excess for 1942 and 1947, respectively, is approximately 86 pounds and 44 pounds, and represents the margin of well head working pressure over what is necessary at that point for the conditions of flow of wells totaling 130 MMCF into the lines and with 250 pounds at Bivins station. Having in mind the basic assumption of 250 pounds suction at Bivins, it is indcated that in 1942 and 1947 each well has a margin of both capacity and working pressure. It is also indicated by reason of this excess that 250 pounds suction can be maintained at Bivins station through 1947, that it will not fall to 150 pounds or any point between 150 and 250 pounds before that time. It then follows that no additional compression units are needed

before 1947 except as may be dictated by the requirements of 250 pounds suction and the pumping of 130 MMCF.

In 1942 the available suction pressure at Bivins, of 250 pounds, will be 68.55% of the average rock pressure of 364.69 pounds to be expected at that time. In 1947 it represents 77.02% of the average rock pressure of 324.6 pounds expected to exist at that time.

It is my opinion that the foregoing investigation on the basis of factual data more accurately forecasts the operating condition than Mr. Rhodes' 'judgment figure' of 150 pounds suction pressure for 1943 and his conclusion as to the necessity of additional compressor capacity which is incidental to that judgment figure.

Also Mr. Rhodes' claim that suction pressures of one third or one half or one quarter of average closed in well pressures, said to exist in his experience in other fields, is not applicable to the Panhandle field when investigated with respect to Panhandle wells and company facilities which determine operating pressures.

The fifty-five wells studied in Exhibit 252 include three wells not connected at the time of the hearing, being Bivins A-9 and A-22 and Masterson B-5. It also includes three new wells drilled in 1940, and includes six additional wells made available, or to be made available, by transfer of the main line gate on line F-1 22" to a point a few miles eastward of its former location. (Exhibit 252, p. 1.) The study is based upon a maximum 24-hour demand of the Denver market of 130,000,000 cubic feet on a 14.65 pressure base.

The exhibit (Table III) shows the expected future working pressures and open flows at the end of the calendar years 1942 and 1947. (Exhibit 252, p. 2.) As a basis for the study the witness did not consider the present gathering lines as they now exist and the additions that Watson provided for in his estimate of additional facilities necessary, but Stevens "constructed" in addition to this two additional 10" lines. (There has been no provision made for the cost of these additional lines.) (Exhibit 252, p. 3.) Stevens states that Watson assumed a 100-pound pressure loss by 1947, and that this was based upon the consideration of the

field as a whole and upon the performance and trend of Canadian wells, and contemplated additional drainage in the future. (Exhibit 252, pp. 8-9.) Stevens in his study assumed there would be no change in the future in the present rate of drainage, but based his calculations on the assumption that Canadian would continue to get the same proportion of gas in the future as in the past (Vol. XCVI, pp. 14704-14706), and stated that if he was wrong in this assumption, his calculations would be wrong to some extent. (Vol. XCVI, p. 14705.)

The pressure loss to be expected in the future was determined by considering the entire five-year period from 1935 to the end of the year 1940 (Exhibit 252, p. 12), and, on this basis, Stevens assumed that the pressure loss from the end of 1940 to the end of 1947 would be 55.45 pounds. (Exhibit 252, p. 14.)

Stevens determined, as a result of his calculations, that at the end of 1942 the fifty-five wells, allocated to the Denver line and considered in his study, would be able to produce on peak days at the rate of 227.889 million cubic feet per day, being 97.889 million in excess of the assumed 130,000,000 peak day. (Exhibit 252, p. 14, Columns 1, 2, 3, 4 and 5, Table III.)

Stevens stated on cross-examination that in determining the pressure loss for the future he had considered only the fifty-five wells included in his study (described in Table III, Exhibit 252), and did not consider the entire group of Canadian wells, as he did in Exhibit 197, nor the surrounding wells owned by others, as in Exhibit 182. The record discloses that there are many wells offsetting Canadian wells, which offsetting wells were not considered in determining the pressure losses (Vol. XCVI, p. 14754, et seq.), and that there were many other wells owned by others and located upon acreage entirely surrounded by Canadian acreage, and that these wells were not considered in calculating his pressure loss. (Vol. XCVI, pp. 14764-14767.)

The witness stated that he did not consider any obligation of Canadian to allocate its production among its various lessors, but considered only the ability of the wells to produce. (Vol. XCVI, p. 14812.)

The witness stated that he did not consider the gathering

lines of Canadian as he found them, but his study did contemplate the construction of two additional 10″ gathering lines over and above the present lines with the additions suggested by Watson. (Vol. XCVI, pp. 14812-14813.)

The witness stated that he did not consider the demands of the Amarillo market on peak days, but had assumed that this demand would be supplied by other wells, and made no deduction in his calculations for this, although some of the wells under consideration supply the Amarillo market, those wells being set out in the last paragraph of the list of wells shown on Table III of Exhibit 252. (Vol. XCVI, pp. 14816-14819.) The witness stated that 91% of the gas produced by those wells supplied the Denver line. (Vol. XCVI, p. 14816.)

The witness stated that he did not consider any possible demands of the Chicago line upon the fifty-five wells he considered, because he had assumed the block gate on line F-1 22″ would remain closed (Vol. XCVI, p. 14820), although he had stated on direct examination that some production from these wells would continue to go to the Chicago market. (Exhibit 252, pp. 1, 12.)

He stated also that he had not considered mechanical difficulties in the production of gas, the salting of the wells, the caving of the wells, or any other stoppages for any reason whatsoever. (Vol. XCVI, pp. 14821-14822.)

He also stated that, on the assumptions made by Mr. Rhodes, the five additional 600 H.P. compressors would be needed at Bivins Station by 1943 (Vol. XCVI, p. 14827), and stated also that he agreed with Rhodes that as field pressures go down, pressures at the compressor stations would also be lower. (Vol. XCVI, p. 14840.)

The witness stated that the working pressure on a well was the pressure obtaining while the well was producing, and that the rock pressure was the pressure obtaining when the well was shut in, and that if the rock pressure was less than the working pressure (as he had calculated it), the well would produce no gas at all. (Vol. XCVI, p. 14726.) This was illustrated by reference to Thompson A-1, Thompson A-2 and other wells, and the witness stated that these particular wells would produce no gas at all on peak days, because the rock pressures would be less than the working

pressures as he had computed them. (Vol. XCVI, pp. 14727-14731.) He stated, however, that these wells constituted extreme cases. He stated further that these wells could produce some gas if a favorable working operation were created, but that he had made no study of the matter from this angle. (Vol. XCVI, p. 14731.)

He stated that his calculations, as shown in Column 2, Table III (Exhibit 252), were based upon the expected performance of an average well at the end of 1942 (Vol. XCVI, p. 14741), and that to determine the rock pressure at the end of 1942, there would be subtracted from the 1940 rock pressure 18.26 pounds, being the expected loss in pressure from mid-year 1940, to the end of the year 1942. (Vol. XCVI, p. 14744.) There was then read into the record the 1940 rock pressures on a number of additional wells. (Vol. XCVI, pp. 14750-14753.) He stated on redirect examination that he had checked all of the wells, and said that the wells named—being twenty-three in all—were the only wells that he had found that "would fall below the line" (that is, wells, the rock pressure of which would be less than the working pressure at the end of 1942.) (Vol. XCVI, pp. 14862-14864.) He stated also that his entire exhibit was constructed upon the assumption of an average drop in pressure of 18.26 pounds for each of the fifty-five wells, although some of the wells might drop more than this, and others not as much (Vol. XCVI, p. 14877), and that although the twenty-three wells referred to (the record shows twenty-two) would not be able to produce any gas on peak days, still the remaining wells would produce enough to more than make up the deficiency. He stated, however, that he had made no calculations to determine whether or not this would be true. (Vol. XCVI, p. 14878.) The twenty-two wells referred to in the record as being incapable of producing any gas on the basis of Stevens' calculations, together with the volume of production assigned to each well (Column 2, Table III, Exhibit 252) are set out as follows:

Name of Well	Production Assigned to Well at end of 1942 (Column 2, Table III)
Bivins A-2	2.350 Million Cubic Feet
Bivins A-4	.410 " " "
Killgore A-3	1.287 " " "
Thompson B-3	16.625 " " "
Masterson J-1	1.713 " " "
Thompson B-1	.440 " " "
Thompson A-3	8.250 " " "
Thompson A-1	18.000 " " "
Thompson A-2	21.250 " " "
Sneed A-1	4.125 " " "
Sneed B-1	4.500 " " "
Sneed C-1	3.000 " " "
Sneed A-2	7.800 " " "
Read A-2	10.625 " " "
Masterson A-4	11.000 " " "
Masterson A-1	1.875 " " "
Fee A-1	5.375 " " "
Read A-1	2.325 " " "
Sneed D-1	1.188 " " "
Masterson B-2	5.375 " " "
Masterson A-3	5.000 " " "
Masterson H-1 (M-1)	.413 " " "
Total	135.511 " " "

The above list of wells was assigned a total volume of production equal to 135.511 million cubic feet (Column 2, Table III, Exhibit 158) at the end of 1942, based upon 25% of the open flow expected to obtain at that time. (25% of the open flow is the maximum permitted production in Texas.)

45. Description of Canadian's Portion of Denver Line Additions, 1940 to 1947, Inclusive.

In Exhibit 66, Witness Rhodes, abstracted supra under the title, "17. Peak Load Obligations and Line Capacity of the Denver Line 1929 to 1940, Inclusive, and as Estimated, 1941 to 1947, Inclusive, and Estimated Additional Necessary Facilities," there is shown the additional compressing station facilities claimed to be required for the

Denver Line. Such additions to Canadian's portion of the line consist of the Dalhart Station, which was constructed early in 1940 with four 600 H. P. units with additional unit to be installed in the early winter of 1940, making a total capacity of 3,000 H. P., and the Bivins Station will have to be extended by the addition of five 600 H. P. units, one to be installed in 1941 in the present building, and the other four units to be installed in a new building in 1942.

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46. **Description of Production and Gathering System Required for all Gas Delivered at Clayton Junction, New Mexico, Except Colorado Interstate's Direct Sale Gas, 1928 to 1947, Inclusive.**

In Exhibit 89 above abstracted, Witness Watson, Assistant Superintendent of Canadian Company, gave a description of its producing and gathering properties as of December 31, 1939.

In Exhibit 94 abstracted supra, he gave a description of the additional facilities which he estimated would be required, 1940 to 1947, inclusive, to meet the obligations indicated by the estimated annual production and peak month requirements as shown in Exhibit 80 abstracted supra; also related data pertaining to peak day requirements, and to meet the obligations of the company to its lessors and the existing statutory requirements relating to the production of natural gas in Texas.

In Exhibit 121 he dealt with the subject indicated in the foregoing heading. He stated (Vol. XXX, pp. 4112, et seq.) that he had been asked to make a study and report covering production and gathering system facilities which would have been and will be required by Canadian for the period 1928 to 1947, inclusive, assuming annual sales, peak month deliveries and peak day obligations to Colorado Interstate at Clayton Junction, as shown in the exhibit, as follows:

Year	Annual Volume of Sales	Peak Month Deliveries	Peak Day Obligations
1928	962,941	259,150	34,600
1929	3,469,641	385,533	34,600
1930	5,507,000	726,765	47,700
1931	6,672,824	804,337	68,200
1932	7,087,400	916,764	68,200
1933	5,799,435	822,831	68,200
1934	5,990,928	685,073	68,200
1935	6,957,466	732,507	68,200
1936	7,958,802	974,133	68,200
1937	9,136,073	1,153,207	68,200
1938	8,817,872	1,005,148	68,200
1939	9,249,048	1,220,139	68,200
1940	9,955,526	1,357,766	82,200
1941	10,782,845	1,487,102	82,200
1942	11,205,430	1,539,391	82,200
1943	11,583,834	1,580,729	89,500
1944	11,962,148	1,628,292	89,500
1945	12,336,531	1,675,405	89,500
1946	12,336,531	1,675,405	89,500
1947	12,336,531	1,675,405	89,500

The volumes so submitted to him were computed on a 16.4 pounds pressure basis.

The annual volumes for the years 1928 to 1939, inclusive, represent actual deliveries to Colorado Interstate of all gas, except Colorado Interstate's direct sale gas, and the annual volumes for 1940 to 1947, inclusive, are the estimated deliveries for all gas, except Colorado Interstate's direct sale gas, as shown in Exhibit 56, Witness Beardsley. (Abstracted under Title 15 of Colorado Interstate's brief.)

The peak month deliveries at Clayton Junction are taken from Exhibit 99, Witness Rhodes, for Colorado Interstate's requirements for all gas, except Colorado Interstate's direct sale gas. The peak day obligations shown in the table are the full pipe line capacity requirements, including compressor fuel of "a Denver pipe line for all gas, except Colorado Interstate's direct sale gas, shown in Exhibit 98, Witness Rhodes. Said Exhibits 98 and 99 are abstracted under Title 14 of Colorado Interstate's brief.

Aside from the above stated deliveries of gas to be made

at Clayton Junction for Colorado Interstate's sale of all gas except its direct sale gas, all production and sales requirements and peak month obligations of Canadian for the purposes of the statement, have been taken exactly as they appear in Exhibits 78 and 79, Witness Lusk, for the years 1928 to 1939, inclusive, and from Exhibit 80 Witness Hendee, for the period 1940 to 1947, inclusive.

He stated that the only material change in production and gathering facilities resulting from the reduction in deliveries to Colorado Interstate at Clayton Junction, is a reduction in the total number of producing gas wells required in each year commencing in 1937. Up until that year all wells drilled would have been required by reason of lease and production obligations, notwithstanding the reduced volume of deliveries to be made at Clayton Junction. He stated that in his opinion the reduced deliveries and peak obligations at Clayton Junction as stated would result in certain changes in the company's drilling program from 1937 to 1947, inclusive, as follows:

Bivins A-19, drilled in 1937, would have been drilled in 1937.

Bivins A-20, drilled in 1937, would have been deferred until 1938.

Killgore A-2, drilled in 1937, would have been drilled in 1937.

Bivins A 21, drilled in 1937, would have been deferred until 1939.

Read A-2, drilled in 1937, would have been drilled in 1937.

Bivins A-22, drilled in 1937, would have been drilled in 1937.

Bivins A-23, drilled in 1938, would have been deferred until 1940.

Bivins A-24, drilled in 1938, would have been deferred until 1941.

Masterson A-4, drilled in 1939, would have been drilled in 1939.

Bivins A-25, drilled in 1939, would have been deferred until 1942.

Bivins A-26, drilled in 1939, would have been drilled in 1939.

Masterson B-3, drilled in 1939, would have been deferred until 1940.

Sneed A-2, drilled in 1939, would have been deferred until 1944.

Masterson B-2, drilled in 1939, would have been deferred until 1941.

Killgore A-3, drilled in 1939, would have been deferred until 1941.

Amarillo No. 1, drilled in 1940, would have been drilled in 1940.

Thompson A-3, drilled in 1940, would have been drilled in 1940.

Thompson B-3, drilled in 1940, would have been drilled in 1940.

Masterson A-5, drilled in 1940, would have been deferred until 1942.

In addition to existing wells, the drilling of which has been deferred to future years as above indicated, it was his opinion that the company would be required to drill and complete thirty new wells for the purpose of meeting its production requirements and lease obligations during the period 1941 to 1947, inclusive.

He summarized the above and stated existing wells and new wells would be drilled during the period 1937 to 1947, inclusive, as follows:

Year	Existing Wells (Drilled 1937 to 1939, Inclusive)	Wells Drilled in 1940	New Wells to be Drilled 1941 to 1947, Inclusive	Total
1937	4	0	0	4
1938	1	0	0	1
1939	3	0	0	3
1940	2	3	0	5
1941	3	0	2	5
1942	1	1	3	5
1943	0	0	8	8
1944	1	0	5	6
1945	0	0	5	5
1946	0	0	6	6
1947	0	0	1	1
	15	4	30	49

The reduction in the volume of deliveries and peak obligations to Colorado Interstate at Clayton Junction does not result in any change in the program submitted by him in Exhibit 94 covering the reconditioning of old wells, drilling and cleaning-out equipment, other gathering lines, sour gas treating plant, pipe line department equipment and field camps required for the years 1940 to 1947, inclusive. Neither would any such reduction in volume of deliveries and peak obligations have resulted in any substantial change in such items of property as were actually provided for in the years 1928 to 1939 inclusive, except that meters and the construction of gathering lines for the wells, the drilling of which has been deferred, would also have been deferred.

Commission's Exhibit 96 is as follows:

(Copied from copy of instrument supplied by Canadian River Gas Co.)

The State of Texas, Counties of Oldham and Hartley.

Know All Men by These Presents.

That, Whereas, heretofore, and as of the 1st day of May, 1939, Miles G. Bivins, individually and as Trustee, Julian L. Bivins, individually and as Trustee, and Mary E. Bivins, all designated as Lessor, made, executed and entered into a contract with Canadian River Gas Company, designated as Lessee, which said contract is recorded in Volume 66, pages 234-258, of the Deed Records of Hartley County, Texas, and Volume 32, pages 234-261, of the Deed Records of Oldham County, Texas, reference to which is here made for all of the terms and provisions thereof; and,

Whereas, said contract, in addition to other matters, provides for the drilling of test wells on certain "undeveloped acreage", which acreage is described as Exhibit "D" in said contract; and,

Whereas, said contract also provides that said "undeveloped acreage" should be divided into six drilling units for the purpose of further testing and exploring the same as in said contract provided; which drilling units have heretofore been designated in accordance with the terms and provisions of said contract, and copy thereof furnished to Lessor hereinabove named; and,

Whereas, Drilling Block #1 of said "undeveloped acreage" covers and includes, the following described acreage, to-wit:

Sec.	Portion	County in Which Located	Acreage
	Capitol State Syndicate Sur.—Block #21.		
17	W/2 and SE/4	Hartley	480.00
18	North 480 acres	Hartley	480.00
19	All	Hartley	640.00
29	All	Hartley	365.70
30	All	Hartley	608.00
	Capitol State Syndicate Sur.—Block #20.		
26	All	Hartley & Oldham	597.60
27	All	Hartley & Oldham	640.00
25	All	Oldham	234.40
24	All	Oldham	640.00
	Gunter & Munson Block—#2.		
24	All	Oldham	473.00
23	All	Oldham	640.00
67	All	Oldham	657.00
25	All	Oldham	322.00
26	All	Oldham	325.00
27	All	Oldham	325.00
68	All	Oldham	755.00
64	All	Oldham	640.00
65	All	Oldham	640.00
	East Line & Red River R. R. Survey—Block 9.		
1	All	Oldham	320.00
2	All	Oldham	320.00

aggregating approximately 10,102.70 acres; and,

Whereas, subdivision (ii) of subsection (c) of Section 2 of Article IV of said contract provides that Lessee may relieve itself of the obligation to drill any one or more of the test wells required under subsection (b) of Article IV, "by executing and delivering to Lessor, on or before May 1st of any year, a proper and valid instrument, releasing and surrendering unto Lessor all of its leasehold rights in and to the land embraced in any drilling unit on which no test well has been drilled"; and,

Whereas, no test well has been drilled upon said unit hereinabove described and referred to as Drilling Block #1, and Canadian River Gas Company desires to relieve

itself of the obligation to drill one of said test wells (being the second well required under said contract of May 1, 1939, hereinabove referred to—the well otherwise required to be commenced on or before July 1, 1940, by releasing the acreage included in said Drilling Block #1:

Now, Therefore, in consideration of the premises, Canadian River Gas Company does by these presents remise, release, quit-claim and surrender unto the Lessor above named all of its leasehold rights in and to the lands hereinabove specifically described as being contained in Drilling Block #1.

In Testimony Whereof, witness the execution of this instrument by Canadian River Gas Company, acting by and through one of its Vice-Presidents and attested by one of its Assistant Secretaries, this the 27th day of April, A. D. 1940.

Canadian River Gas Company,
By R. E. Wertz,
Vice-President.

Attest: W. M. Wright, Assistant Secretary.

(Seal)

Approved as to form, Chas. H. Keffer.

The State of Texas, County of Potter.

Before Me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared R. E. Wertz, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same as the act and deed of Canadian River Gas Company, a corporation, and as the Vice-President thereof, and for the purposes and consideration therein expressed.

Given Under My Hand and Seal of Office, this the 29th day of April, A. D. 1940.

F. E. Miller,
Notary Public, Potter County, Texas.

Canadian's WITNESS LUSK testified on cross-examination as follows: (Vol. LIV, pp. 7453-7457.)

Q. Well, now, I see in his Exhibit No. 94, "Future Wells," Page 2 of that Exhibit 94, in 1940 he has four wells; 1941, five wells, and so forth. Do these figures in your statement 3 intend to correspond with those or not, or why the difference?

A. Well, Mr. Watson's program, on Page 2, his program calls for 41 wells, five of which are exploratory wells. In the first five years there is one well deducted from his program. He shows 4 minus 1, and I show 3; 5 minus 1, I show 4; 6 minus 1, and I show 5. The exploratory wells are expensed under Mr. Watson's program and these are presumed to be the flush wells that would be drilled in.

Q. That accounts for that difference?

A. Yes. For the five years there is one well deducted from Mr. Watson's program.

Q. So that one exploratory well for each year as set up in his well drilling program in Exhibit 94 is expensed and appears in one of your previous exhibits, does it not, Mr. Lusk, in that fashion?

A. It will appear in Exhibit 170, 172 and—well, there are several other exhibits. The amount is $29,500.

Q. And they also appeared in Mr. Rhodes' projections?

A. Yes, it did.

Q. Under that column of "Dry Holes"?

A. Dry Holes, yes, sir.

Q. And are taken care of in each of those projections?

A. That's correct.

Q. Or expensed?

A. Yes, sir.

Q. That is the reason why you deducted from Mr. Watson's drilling program as set forth in Exhibit 94, one well for each of those years?

A. For the first five years one well has been deducted.

Q. So in 1940 you have a remaining 3 wells as shown on Statement 3 instead of his four, and right on through during that period, during each of those years until you get down to—through 1944?

A. That's correct.

Q. Then you resume his estimate, five wells for 1945, six wells for 1946, and one well for 1947?

A. That's correct. ~~The exploratory program after 1944 is complete.~~

Q. In other words, all of the wells projected or estimated by Mr. Watson in his Exhibit 94, after you have deducted the exploratory wells, are presumed to be producing wells and you have set them up in these columns?

A. That is correct.

Q. And in setting up the items on Statement 3 for each of those, for the wells during each of those years projected, have you utilized Mr. Watson's estimated cost figures per well?

A. Yes, sir, I have utilized Mr. Watson's estimated cost of $30,000 per well, $22,300 of which is shown in the unit cost column of total drilling and equipment, $750 for the meter, in Line 10, and $6,950 in Line 13 is the cost of new lines. The total of those three is $30,000. That is Mr. Watson's estimate.

Q. And you have projected that through each of the years?

A. At the same unit price, yes, sir.

Q. Now, the other items under "Production System, Reconditioning Old Wells," are those numbers that are indicated under Columns 1940 through 1947, Statement No. 3, are those the same that Mr. Watson estimates?

A. Yes. On Page 5 of Mr. Watson's estimate under the caption "Reconditioning Old Wells," he estimates that these jobs will cost approximately $4,000 per well, and the number he states corresponds with the number shown on Line 3, "Reconditioning Old Wells"—three in 1940; four in 1941, and four in each of the succeeding years.

Q. And you have projected those through 1947?

A. That is correct, yes, sir, based on Mr. Watson's program.

Q. Now, going back to "Gas Well Construction" additional wells, this cost of this Amarillo well, is that expensed?

A. You mean the Amarillo No. 1?

Q. Yes.

A. That cost $49,100 and that is expensed. That doesn't enter into this picture at all.

Q. That enters into your previous computations?

A. That's all under the heading of expense.

Q. In 1940?

A. In 1940.

Canadian's WITNESS WATSON testified on cross-examination as follows: (Vol. XXII, pp. 3065, 3066.)

Q. You are still of the opinion that the judgment figure that you have used on Page 3 is better than just confining yourself to the company's actual past history?

A. Yes, sir

Q. Why?

A. For this reason: We had not suffered appreciable drainage prior to about 1938. If you will look at your rock-pressure map of the Panhandle field, our acreage is the only one with the exception of a smaller part of the Cities Service in which there is practically—not practically, but close to virgin rock pressure, so it is obvious that somebody must supply the gas that has already been withdrawn from the field. Since the pressure is higher on our acreage than where it is being produced, we are going to suffer increased rate of migration.

WITNESS WATSON further testified as follows: (Vol. XXII, pp. 3079-3081.)

Q. Well, in your equitable proration program that you are contemplating, what are you doing about that so-called unoperated acreage that the company has not included in its operated acreage?

A. It is just not operated.

Q. Not operated. Well, in what leases is that acreage embraced—quite a number of them, isn't it?

A. Yes, quite a number of them.

Q. Well, what are you doing about production, are you giving those lessors any relief in production or giving them anything from the effects drainage?

A. It is not operated, therefore, that acreage is not included in the operated acreage.

Q. Why hasn't it been included in the operated acreage?

A. Because it cannot produce gas. It is not developed, not operated. How can you pro rate it if you have no means of prorating it?

Q. Now, these lessors, and they are much smaller leases in that area, aren't they, than in the operated area?

A. Oh not necessarily.

Q. Well, all right, what do you consider in your group of unoperated acreage as small or large leases?

A. I have not—

Q. Well, let's take, for instance, the Sneed lease. That is a 640-acre tract. That is classified by your company as unoperated.

A. There are several—I haven't classified the unoperated acreage. I have classified only the operated acreage. Now, if there is a difference between the total acreage held under lease and that which is operated, I do not have it. There is a difference which does not enter my figures at all.

Q. Now, what is the company's proration program that you say with reference to possible drainage from these so-called unoperated leases?

A. Well, in some instances I do know that the land owner is paid rentals—delayed rentals for the privilege—the company's privilege of not being required to drill on those leases, which I assume is in lieu of producing gas from them, so that his royalty would be a set amount rather than based on proration, and since there is no gas produced from that lease he couldn't enter into the proration picture.

Q. And you have got about 30 some odd leases, haven't you, scattered over that whole field?

A. As I remember there were originally better than 130. Now I don't recall how many there are now operated.

Q. And the compensation that those lessors get from the company, if they are in the category of so-called unoperated acreage class, is the delay rentals that you pay on the leases?

A. I said that there are some that way. Now, I do not know whether every lease is handled that way or not. Possibly there are some of those leases that were procured by other means.

Q. Then, if there is no rental paid on a lease unoper-

ated and there is drainage from that lease, there is no compensation that goes to that lessor at all?

A. If such a lease should exist, which I doubt, that would be the case.

Q. Well, why has there been no drilling on those leases and the company continues to hold them anyway?

A. Because drilling wasn't required.

Q. And those leases, then, don't get any protection under the company's equitable prorations program?

A. I presume they are protected by some other means other than including them in the proration picture.

WATSON further testified: (Vol. XXII, p. 3092.)

Q. And, of course, all of these wells—proposed wells set forth on Page 2 of this proposed program, aside from the so-called exploratory wells, are supposed to be drilled north of this staggered line, if this staggered line correctly reflects the division line?

A. That is correct.

Q. And the history of your connection with the company and its drilling program, you don't strike any dry holes for gas in that area?

A. No, we haven't drilled a dry hole within the area of which we have confined by what we call the limit of production.

Q. And that would be, if this staggered line is correct, it would be north of the extent of that staggered line?

A. The future locations would—I presume that they would be north of that staggered line if that is the limit of our production.

WATSON further testified: (Vol. XXII, pp. 3098-3101.)

Q. But when you got to the year 1947 you just made a provision for this one well ostensively to take care of the drilling requirements under that Bradley Gage lease?

A. Yes, sir. I drilled no wells for production.

Q. And that well, I suppose, you would estimate the minimum cost for that, too, as you have heretofore?

A. It would be the same cost as the other wells.

Q. Approximately what? What did you approximate the minimum cost?

A. I approximated the minimum cost including the pipe line connection and meter as $30,000.

Q. And that would be drilled sometime during 1947—proposed to be?

A. It will be drilled prior to June 1947.

Q. And no provision made for the drilling of any other wells during that time, during 1947?

A. No, sir.

Q. Is this enterprise going to come to an end in 1947?

A. I am supplying production here only in accordance with Mr. Hendee's Exhibit No. 80. As to what will happen after 1947, I haven't considered it. I could add that there was another specific well required in June of 1948, which I haven't taken into account. My estimate was based solely on Mr. Hendee's exhibit.

Q. Which goes through 1947?

A. And stops.

Q. And although it stops right at that point, you have provided an expenditure of some $30,000 sometime during that year?

A. I would have to supply all the gas for 1947 that was necessary and that well would require—that lease would require a well in order to become operative.

Q. Well, of course, there was no more looking into the future from that point on. You wouldn't want to perpetuate a lease at that late hour, would you, for the drilling of a well?

A. I don't know about that. That is what the specific lease states and that's what I presume we will do.

Q. Now, with reference to this map 95, did you indicate on that map the approximate line of division between sour and sweet gas areas, as was indicated on map 13-A?

A. According to that map, Exhibit No. 13-A, it follows the lower Hartley County line and the Oldham and Potter County line north of the location of the fault line to a point in Section 5, E L & R R R R, Block 25. From there it extends northeast and due east to a point in Section 70, F H & T C, Block 44, and from that point it extends due north beyond the limits of the map.

Q. Has there been any extreme variation in the location

of that line recently or since the time of the preparation of this map which has been revised through July 1, 1938?

A. I don't recall any change in that area on the sour gas line. I don't know whether that is the official sour gas line or not.

Q. But that is the way the Canadian River Gas Company considers it?

A. I don't know.

Q. Well, if it is reflected on Exhibit 13-A, the map I was referring to, that is the way it is projected on that map?

A. The map, Exhibit 13-A, as I have described it. We took it off that and put it on Exhibit No. 95.

Q. Now, then, in any of these proposed wells you have set forth on this list on Page 2, eliminating those so-called exploratory wells, would any of those wells in the remaining list be drilled in the sweet gas area, all of them in the sweet gas area?

A. All of them would be drilled in the sweet gas area.

Q. They would?

A. Yes.

MR. PAUL SAPP, Commission Engineer, testified as follows concerning Watson's drilling program: (Vol. C. pp. 15495-15541.)

A. My name is Paul M. Sapp.

Q. Where do you reside, Mr. Sapp?

A. Lakewood, Colorado.

Q. By whom are you presently employed?

A. I am employed by the Federal Power Commission.

Q. How long have you been so employed?

A. Since September 1938.

Q. In what capacity?

A. As Assistant Engineer.

Q. You are employed by the Federal Power Commission in that capacity at the present time?

A. Yes, sir, in the Denver regional office.

Q. During the course of your employment with the Federal Power Commission, did you at any time have occasion to do any work with the present proceedings?

A. Yes, sir, I have done considerable work.

Q. Over what period of time did you do that work?

A. It was from the middle of March 1939.

Q. What was the basic character of that work? Where was it performed?

A. I did field work in Amarillo, Texas; Austin, Texas, and certain other points in Texas, as well as Colorado Springs, Colorado.

Q. Do you have with you a statement showing your qualifications in connection with your professional work?

A. Yes, I do.

Q. Will you please read that into the record?

A. "I am a graduate of the College of Engineering, University of Southern California, with the degree of Bachelor of Science in Civil Engineering. During summer periods and at certain other times while in college, I worked as a roustabout in the oil fields at Signal Hill, Santa Fe Springs, and Huntington Beach."

Q. That is in the state of California?

A. Yes, sir.

Q. Please proceed.

A. "After graduation, I worked for a short period for the California Construction Company in Hollywood doing construction work on reservoirs, retaining walls, sound studios, and other structures.

"Later in 1929 I was employed by the City of Los Angeles in the City Planning Commission as a topographical draftsman and in the same capacity for the Department of Water and Power. My work with the City consisted of preparing maps, plans, and exhibits for use and publication in connection with lands acquired for the city aqueduct and the layout of city streets and zoning.

"In December 1929 I accepted employment as Junior Engineer for the Interstate Commerce Commission, and thereafter until September 1938, I worked for the Bureau of Valuation of the Interstate Commerce Commission in Washington, D. C. During the first five years in Washington I was engaged in preparing exhibits, analyzing maps and records, preparing inventories, making classifications, and compiling reports in connection with railroad and telegraph properties under the jurisdiction of the Commission for rate making, mortgage and other *prupóses*.

"During 1934 and 1935 I was assigned to supervise under the direction of the engineer in charge, certain special re-

search problems in transportation, involving statistical studies of the extent and value of public and other lands donated to the railroads and the extent of streets and highways vacated for the benefit of the carriers.

"During 1936, 1937 and part of 1938 I was in charge of preparation of oil pipe line inventories and valuations for the Interstate Commerce Commission so far as these valuations pertained to land and land rights. This work involved the examination of deeds, leases, and other instruments; classification of land and land rights with respect to ownership and use for transportation purposes; coordinating data to be incorporated in valuation reports for rate making purposes with respect to engineering and accounting features: conferring with representatives of the oil pipe line companies; and preparing testimony for presentation in formal hearings before the Interstate Commerce Commission.

"In September 1938 I was transferred from the Interstate Commerce Commission to the Federal Power Commission as an assistant engineer. My work since March 1939 has dealt almost entirely with the properties of Canadian River Gas Company, Colorado Interstate Gas Company and Colorado-Wyoming Gas Company in connection with Dockets G-118, G-121 and G-124.

"Beginning in March 1939 and continuing to the present time, I have made a thorough study of instruments, contracts, and agreements under which Canadian River Gas Company has obtained its gas and oil rights and operates its leases."

Q. In connection with that assignment in these proceedings, have you prepared a written statement pertaining to certain of the leases of Canadian River Gas Company?

A. Yes, sir, I have.

Q. Is this the written statement I now show you?

A. Yes, this is the written statement.

Q. In connection with that written statement, did you prepare an exhibit showing in tabular form certain facts and figures that you compiled also pertaining to those certain leases of the Canadian River Gas Company?

A. Yes, sir.

The Trial Examiner: What is the title of that exhibit, Mr. Lange?

Mr. Lange: It is entitled "Classification by leases of wells alleged by the company in Exhibit No. 94 to be required during the period from 1941 to 1947, inclusive, of Canadian River Gas Company."

The Trial Examiner: Very well. It will be marked for identification as Exhibit No. 291.

(Exhibit 291, Witness Sapp, marked for identification.)

Q. Will you please read the written statement?
A. The tabulation marked for identification as Exhibit No 291, prepared by me, summarizes the claims of Canadian River Gas Company pertaining to additional wells alleged to be required during the period from 1941 to 1947, inclusive, as testified to by Mr. Max K. Watson, Assistant General Superintendent of the company, in Exhibit No. 94 and in the official transcript, pages 3007 and 3096, inclusive.

The classifications *inducated* in columns 7, 8, and 9 in the tabulation, Exhibit 291, are derived from Mr. Watson's testimony. Under cross-examination, on page 3042, Mr. Watson pointed out that as the period progresses up to 1947, the wells required to be drilled under lease obligations will also begin to come under the requirements of peak day demands.

It is my purpose at this time to deal only with the claims advanced by Mr. Watson as to specific drilling requirements in the lease instruments; that is, my testimony pertains only to the alleged specific drilling obligations stated by Mr. Watson to be *explicy* in the lease contracts. For this purpose, I shall refer to certain clauses in the various instruments, which have been marked for identification, bearing on obligations of the company to drill wells. I shall also point out certain facts relating to the renewal of expired or expiring agreements, in order to show what the practice of the company has been in the past on the expiration of leases covering unoperated tracts.

Exploratory Wells

Bivins "A"—Lease 30. It is claimed that one exploratory well is required in each of the years 1941, 1942, 1943, and 1944 under the terms of the Bivins Consolidation Agreement of May 1, 1939. Quoting the agreement, Article II, Section 3:

"Drilling Obligations. Except as to any well or wells which may be required under the provisions of Section 4 of this Article, Lessee shall not be required to drill any well or wells upon the lands embraced in the Consolidated Lease for the purpose of giving Lessor's acreage the maximum allowable of Lessee's market for gas produced in the Panhandle Gas field to which Lessor may be entitled under any proration order entered by the Railroad Commission of Texas, or any other purpose; it being understood and agreed that the income payments guaranteed by Lessee to Lessor under Section 2 of this Article shall constitute full liquidated damages and payment for Lessee's failure, or election not to drill."

Quoting Article II, Section 4:

"Drainage. Lessee shall at all times drill, operate and produce such wells upon the premises embraced in the Consolidated Lease as may be reasonably necessary to prevent undue internal drainage by Lessee as between lands embraced in the Consolidated Lease and all other lands operated by Lessee. In addition thereto, Lessee shall use its best efforts to drill, operate and produce such wells upon lands embraced in the Consolidated Lease so as to prevent undue drainage by others from such lands."

Article IV, "Undeveloped Acreage," provides in Section 2 (a) for the division of approximately 60,000 acres, referred to as "undeveloped" acreage, into six drilling units of approximately 10,000 acres each. Section 2 (b) deals with the drilling of test wells, if the drilling of such wells is undertaken. Quoting from Section 2 (c):

"with the exception of the first test well which must be commenced on or before July 1, 1939, Lessee may relieve itself of the obligation to drill any one or more of the test wells required under sub-section (b) of this Article, by adopting either of the following alternatives:

(i) By paying or tendering, on or before May 1 of any year, to Lessor or for Lessor's credit in the Amarillo National Bank, of Amarillo, Texas (which Bank and its successors shall continue as Lessor's agent and depository for any and all rentals payable under the

terms hereof regardless of any change of ownership in said land or in the gas in said land) the sum of $10,000, which payment shall operate as rental and cover the privilege of deferring commencement of drilling operations for the test well due in such year for the period of that year. In like manner and upon like payments or tenders the commencement of drilling operations for the drilling of a test well or wells as required in such year may be further deferred for like periods successively; provided that the privilege of deferring drilling operations by payment of delay rentals as herein provided shall in no event extend beyond April 30, 1944. Notwithstanding the death of the Lessor or his successors in interest, the payment or tenders of rentals in the manner provided herein shall be binding upon the heirs, devises, executors and administrators of such person.

(ii) By executing and delivering to Lessor, on or before May 1 of any year, a proper and valid instrument, releasing and surrendering unto Lessor all of its leasehold rights in and to the lands embraced in any drilling unit on which no test well has been drilled."

Performing its obligations under the foregoing paragraphs, the company drilled a test well in 1939 on Drilling Unit No. 2. This well, designated on the company's records as Bivins A-26, was a dry hole. By an instrument dated April 27, 1940, the company exercised its option under Article IV, Section 2 (c), Subsection (ii), and released Drilling Unit No. 1 in lieu of drilling another test well. The release instrument has been admitted in evidence as Exhibit No. 96.

Other Wells

Read "A"—Lease 81. It is alleged by Mr. Watson in his testimony that one well is required in 1941, one well in 1943, and one well in 1945, all to comply with lease obligations. This lease covers 4,296.9 acres situated in the proven area of the field.

The lease of March 6, 1928 contains no obligations requiring the drilling of any additional well or wells on this lease, but rentals may be paid to the lessor in lieu of drilling without time limitations. It may be noticed that rentals

are required only as to an undivided ¾ interest in certain tracts. The remaining ¼ interest requires no rentals but was fully cured by the drilling of a well in 1929 and has since been held rent free. Two producing gas wells have been drilled on the lease, which acts to reduce the rentals from $4,296.90 to $3,016.90 per annum. However, the lease contains no obligation requiring the drilling of any additional well or wells.

Thompson "A"—Lease 67. It is alleged by Mr. Watson in his testimony that one well will be required in 1942, one well in 1944, and one well in 1946, to comply with lease obligations. This lease covers 3,840 acres, wholly within the proven limits of the field. Two producing gas wells are located on the lease (Thompson A-1 and Thompson A-2). The lease of August 6, 1919 provided as follows:

> "It is agreed that this lease shall remain in force for a term of 5 years from this date, and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee."

A supplemental agreement of March 19, 1926, paragraph 2, provided that annual rental payments should be made at a rate of $1.00 per acre, except that each producing well would eliminate rentals on 640 acres. The three producing wells now on the lease act to reduce the rentals from $3,840 per annum to $1,920 per annum. The three additional wells proposed by Mr. Watson would eliminate the remaining rental of $1,920 per annum. However, the lease contracts contain no obligations requiring the drilling of any additional well or wells.

E. B. Johnson "A"—Lease 92. It is claimed by Mr. Watson in his testimony that to fulfill lease obligations, one well must be drilled in 1942. However, there is already one well on this lease of 799.1 acres. The instrument itself provides that so long as gas is produced from the land by the lessee, the entire acreage is to be held free of rentals. The lease contains no obligation requiring the drilling of any additional well or wells.

J. C. Johnson—Lease 137. It is claimed by Mr. Watson in his testimony that a well is required in 1943 to fulfill lease obligations. The instrument provides that the lease may be held during its primary term, expiring December

9, 1949, by the payment of delay rentals and without drilling. However, Mr. Watson states in his testimony that it is the purpose of the company to attempt to consolidate the J. C. Johnson lease with the Holtorf lease and the Lubberstedt lease, and to drill one well on the consolidated lease. The Holtorf lease, No. 138, was released by the company on October 9, 1939 and would have expired under its own terms on November 13, 1939 unless drilled on before that date. The Holtorf lease, No. 138, has not been renewed. The Lubberstedt lease, No. 139, will expire January 26, 1944 unless drilled on before that date, but the provisions of the lease do not require that a well be drilled. Therefore, it is the Lubberstedt lease, rather than the J. C. Johnson lease which will expire unless drilled on in 1943. Mr. Watson stated in his testimony that all three leases must be drilled by 1947 if no consolidation is made. The company's records show that the company, as in many other instances, was successful in renewing the J. C. Johnson lease after the cancellation of the former lease on the acreage. The prior lease, No. 137, dated December 7, 1929, for a term of 10 years, was cancelled October 9, 1939. It would have expired December 7, 1939 under its own terms unless drilled on before the latter date. The renewal lease is for a term of 10 years from December 9, 1939.

Crawford—Lease 84. It is claimed by Mr. Watson in his testimony that a well will be required in 1943 under lease obligations. Under provisions in the lease instrument of August 10, 1933, it is a fact that the lease will expire on August 10, 1943 unless a producing well is located on the lease on that date, but the lease contains no obligation requiring the drilling of a well. Records of the company show that a prior lease, dated August 10, 1928, was for a term of five years and that Canadian River Gas Company, in lieu of drilling the lease prior to its expiration date of August 10, 1933, secured a 10-year renewal from August 10, 1933 (covering an acreage restated as 27.1 acres greater than the prior lease).

Crawford—Lease 70. It is claimed by Mr. Watson in his testimony that one well will be required in 1943 under the terms of the lease. The lease land involved covers 815.8 acres held by the payment of annual rentals of $1.00

per acre during the primary term, which expires July 30, 1943. The history of this leased acreage is as follows:

Lease No. 24 and Lease No. 34, 480 acres and 175.8 acres, respectively, were acquired by Amarillo Oil Company from Mountain States Gas Company in 1924, but were never assigned to Canadian River Gas Company.

A lease, designated as No. 70, was secured by Amarillo Oil Company on September 13, 1927, effective July 30, 1928, for a term of five years, covering the same acreage as prior Leases 24 and 34. An additional 160-acre tract was included in the lease by an instrument dated August 10, 1928. The gas rights in Lease No. 70 were assigned to Canadian River Gas Company on September 20, 1928. The company did not drill on the lease before the expiration date of July 30, 1933. Canadian River Gas Company secured a renewal of the lease as of July 30, 1933 for a primary term of five years, but did not drill on the lease before this five-year term expired. Canadian River Gas Company again secured a renewal on the 815.8 acres, effective July 30, 1938, for an additional five-year term. It is claimed by Mr. Watson in his testimony that this lease must be drilled before July 30, 1943. It is important to note the fact that the lease has already been renewed three times, and that the provisions of the present lease do not contain any obligation requiring the company to drill any well or wells.

Baker—Lease 63. It is claimed by Mr. Watson in his testimony that one well will be required to be drilled in 1945 under terms of the lease. The leased land involved covers 583 acres held by annual delay rentals of $0.75 per acre during the primary term of 10 years, which will expire as of December 8, 1945. The history of leases on this acreage since 1925 is as follows:

A lease on a stated acreage of 640 acres was negotiated by John C. Gordon, as lessee, on December 9, 1925, for a primary term of five years. On June 5, 1928, Amarillo Oil Company assigned the gas rights in 480 acres under this lease to Canadian River Gas Company. Prior to the expiration of the primary term a renewal was executed (June 20, 1929, effective December 8, 1930) covering the same described acreage as under the prior lease. The gas rights

in the entire acreage under lease, stated to be 583 acres (on October 25, 1934, effective December 8, 1935) for a primary term of 10 years. It is claimed by Mr. Watson in his testimony that under its contract obligations the lease must be drilled in 1945. It is important to note the fact that the lease has already been renewed at least three times, and that the present lease does not contain any obligations requiring the company to drill any well or wells.

Bradley—Lease 73. It is claimed by Mr. Watson in his testimony that one well will be required to be drilled in 1947 to comply with lease obligations. This lease covers 320 acres held by annual rentals of $1.00 per acre in lieu of drilling. The history of this leased acreage since 1927 is as follows:

A lease on the 320 acres was executed on October 27, 1927 with E. R. Biggs as lessee. Amarillo Oil Company assigned the gas rights to Canadian River Gas Company on September 20, 1928. Prior to expiration, which would have occurred on October 24, 1937, a renewal was executed between the lessor and Amarillo Oil Company for an additional 10-year term from August 23, 1937.

Mr. Watson stated in his testimony that the company proposes to consolidate this lease with Lease No. 72, the Gage lease (which will expire January 31, 1949 unless drilled on), and drill a well on the consolidated lease in 1947. The records show that the Gage lease was renewed in 1939. It is important to note the fact that the Bradley lease has been renewed at least once, and its provisions do not require the company to drill any well or wells."

Q. Mr. Sapp, in connection with the preparation of your written statement and the computation as set forth in Exhibit 291, did you have available and did you make an examination of all of the leases and instruments bearing on the leases throughout the entire history of these various instruments as set forth in your Exhibit 291?

A. At various times I requested of the company two copies of the various lease instruments, going back as far as Canadian River Gas Company had an interest in the leases, examining those instruments.

Q. Did you find in any of those instruments any pro-

vision giving either Canadian River Gas Company or prior lessees the option to renew any one of those leases?

A. So far as the leases which were held as of December 31, 1939 and classified by the company as unoperated, there was no such provision in those leases.

Q. And those are the leases that are set up in your Exhibit No. 291?

A. Yes, sir.

Mr. Lange: I believe that is all.

Cross Examination.

By Mr. Keffer:

Q. Mr. Sapp, you state or have just stated in your written statement that your testimony has to do only with leases referred to by Mr. Watson as requiring wells by certain dates; that is correct, isn't it?

A. Yes, sir.

Q. It has nothing to do with the wells which Mr. Watson said it would be necessary to drill for proration purposes or for peak day demands?

A. I have not covered that point at all in this exhibit.

Q. Now, Mr. Sapp, take the Bivins A lease. You take the position there in effect that the company ought to release that acreage rather than drill it, do you not?

A. No, no, sir, I don't think I would take that stand at all.

Q. You stressed the fact that the company did release one of those blocks at one time without drilling it, didn't you?

A. Yes, sir. That was to point out the provision that was available to the company in the lease.

Q. You had it already set out in the portion of the lease quoted, didn't you? Wasn't it perfectly clear it could do that?

A. It was just put in there to emphasize that point.

Mr. Lange: And that they did in fact exercise the option?

Mr. Keffer: Surely. There is no question but what you can do that.

The Witness: That is the only thing I wanted to point out there, Mr. Keffer. I don't know what the company is going to do; whether it is going to drill or not.

By Mr. Keffer:

Q. Would you take the position that they ought to pay $10,000 and defer the drilling of a well for 12 months?

A. I don't take the position here of trying to point out to the company what it ought to do at all, Mr. Keffer.

Q. What position do you take? What is the purpose of this part of your exhibit.

A. It is simply to point out the provision in the lease which allows the company either to drill on the drilling block in that porticular year or to release that drilling block, and also that this acreage is exploratory acreage or unproven acreage in the field.

Q. Then the lease does provide, as shown upon its face, that if the company doesn't drill a well in some particular year as required by the lease, then as a penalty for its failure to do so it must either pay $10,000 and defer the commencement of that well a year or else release some 10,000 acres.

A. That is true, yes, sir.

Q. That's right, and that is a pretty severe penalty, don't you think, in either event?

A. Well, it might be, if there were some good gas land down there.

Q. Well, you aren't saying it is not good gas land, are you?

A. No, I am not.

Mr. Lange: I think the record speaks for itself on that, Mr. Keffer.

Mr. Keffer: Yes, it does.

Q. As far as you know it could be some of the finest gas land in the world, couldn't it?

A. I wouldn't want to take a chance on it, Mr. Keffer.

Q. I say, so far as you know.

A. That's true.

Q. Now, Mr. Sapp, go over into the Read A lease on Page 4. You say that there is no obligation requiring the drilling of any additional well or wells on that lease.

A. So far as the present situation is concerned, that was the result of my examination, yes, sir.

Q. Now, Mr. Sapp, this may be taking an unfair advant-

ige of you, but you have entered into the field of law in this particular case, and didn't stay with your field of engineering. Have you ever heard of an obligation pertaining to an oil and gas lease as to reasonable development?

A. Yes, sir, I have.

Q. All right, you ignored the obligation of the *ead* lease to reasonably develop, didn't you? You ignored that when you said there was no obligation.

A. I'm not sure without going back and reading that lease again, whether that provision is in the lease.

Q. Well, suppose it isn't in it?

A. Well, if it isn't in the lease, I have just this to say, Mr. Keffer: I have made this examination, not from a legal standpoint. Whatever legal constructions may be put into these leases or read into them, under legal interpretations or by legal minds, I will admit that I have ignored those.

Q. Yet you are drawing legal conclusions here when you say there is no obligation requiring any more wells on that lease, aren't you?

A. So far as I can read the lease, that is a perfectly true statement.

Q. I know you couldn't construe it without entering the field of law, could you, and getting somewhat away from your profession of engineering?

A. I didn't attempt to construe it. I simply read the lease and I put down here what the lease says. As to what it means. Beyond what it says, or less than what it says, I haven't made a legal study to determine.

Q. Well, now, on that particular lease I believe Mr. Watson testified that at least one of those wells independent of ~~the obligation to drill, it would~~ be required to drill—to be drilled anyway, or would be drilled anyway, ~~for production,~~ didn't he?

A. Which year are you speaking of now?

Q. The Read lease.

A. Which year? I have those tabulated by years.

Q. That is apparently for the year 1943.

A. As I read the testimony of Mr. Watson, that was a specific lease obligation as he termed it and not a well to be required for production or proration.

Q. But he had a double-barreled theory, didn't he? He said in either event.

A. Yes, I have covered that in my written statement on Page 1. I'll quote "Mr. Watson points out that as the period progresses up to 1947, the wells required to be drilled under lease obligations will also begin to come under the requirements of peak day demands."

Q. He did make the specific statement on the Read lease that that well would be drilled anyway. He does make the statement: "It will also be necessary or advisable from an operating point of view, since located in an area that probably will give us high potential."

A. That's right.

Q. So he had two reasons for that.

A. Yes.

Q. And assuming that you might be correct, assuming for the sake of argument that you are, that the lease itself didn't require the well, yet it might be required, as Mr. Watson say it is, or advisable, at least from the other viewpoint—

Mr. Lange: Mr. Keffer, I believe he stated at the outset that he wasn't passing judgment on any of Mr. Watson's statements as to proration or production requirements.

Mr. Keffer: I understand, Mr. Lange, yet he does say that here is a well that goes over under the lease requirements, while as a matter of fact it might just as logically be placed in the other category. Do I make myself clear on that?

Mr. Lange: But Mr. Watson took that on himself to assign that as a lease requirement.

Mr. Keffer: No, as a lease requirement, and as a needed well. One just as valid as the other. That's my only point there.

Q. If it went out on his theory because the lease didn't require it, certainly it didn't go out, did it, Mr. Sapp, on Mr. Watson's theory as a requirement independent of lease requirements?

A. I don't know whether it did or not. I haven't made a study of it.

Q. I mean, just taking his statement.

A. Taking Mr. Watson's statement on its face, that would be correct, but I haven't made an examination to determine whether it is correct or not.

Q. What sort of an examination would you have made to determine that?

A. I haven't considered that enough to know at this time.

Q. Well, now, Mr. Sapp, let's turn to the Thompson A lease, No. 67. You say again there that the lease contains no obligation requiring the drilling of any additional well or wells. Now, again, let me ask you if you considered the obligation to reasonably develop the lease?

A. The same answer that I gave on the Read lease applies to this one.

Q. That you did not?

A. That is, that I only read what the lease itself said.

Q. Well now, that lease actually said that the company was obligated to reasonably develop the lease. It said it in so many words, didn't it?

A. I would have to refer to that instrument.

Q. Will you refer to it, please? that Thompson A lease, No. 67, in the contract. You referred to the contract in your statement. Will you read Paragraph 2 of the contract dated March 19, 1926, modifying the Thompson A lease and setting out more specifically the obligations under it?

A. Paragraph 2: "At the end of one year from the date of this instrument—"

Mr. Lange: Give the date of the instrument.

The Witness: It has already been given—March 19, 1926.

Mr. Lange: All right.

The Witness: —"the Panhandle Refining Company, its successors or assigns will designate 640 acres around each producing well, whether oil or gas, and the balance of the land will either be released or the respective owners will pay the lessors an annual rental of $1 per acre upon the same. The starting of each subsequent well to suspend the payment of rentals on an additional 640 acres, but rentals to be resumed in 12 months if the well is not productive, but subject to the duty of the lessee at all times to develop all said land for the production of oil or gas therefrom."

By Mr. Keffer:

Q. All right, and that lease did contain a provision to reasonably develop, didn't it?

Mr. Lange: The provision speaks for itself.

Mr. Keffer: That's right. That's correct.

Q. That is correct, isn't it, Mr. Sapp?
A. It contained that provision, yes.
Q. And you ignored that provision entirely?
A. I didn't ignore it entirely. I don't know whether that lease is not already fully developed.
Q. Well, didn't you just state that it had to have how many wells on it?

Let me ask you this: You needn't check that if it takes any time. The lease does have sections on which delay rentals are being paid in lieu of drilling, doesn't it? Isn't that correct?

A. Yes, sir.
Q. All right, now, as a matter of fact, you are familiar that on a lease of that character that the obligation to reasonably develop does prevail, notwithstanding the delay rental provision?
A. Yes, that provision is in there.
Q. Sir?
A. There is a provision there for the development of the lease, reasonably, that is true.
Q. All right.

Mr. Lange: How many wells does that lease have on it at the present time?

The Witness: It has two wells.

Mr. Lange: Producing gas?

The Witness: Yes.

By Mr. Keffer:

Q. All right, now, we'll go on, Mr. Sapp, to the E. B. Johnson, No. 92—no, by the way, before we leave the Thompson lease, Mr. Watson had also testified that two of those Thompson wells—that is, two of the wells to be drilled on the Thompson A No. 67 lease, would be required anyway, notwithstanding the lease requirements, didn't he?

Mr. Lange: Required for production or for proration?

Mr. Keffer: Production.

The Witness: Yes, that's right.

Mr. Keffer: That's right.

Q. So even if your theory should be the correct one, still if Mr. Watson's testimony is to be taken, the wells should still remain in the program, shouldn't they?

A. If his conclusions are correct, yes, sir.

Q. That's right, and you aren't passing judgment on his conclusions.

A. No, I am not. I might say in that connection, if I could, Mr. Keffer, that that Lease No. 67 has two wells on it, which would mean that each well on an average would cover 1920 acres and that there are parts of the Canadian River acreage which aren't developed nearly to the extent of 1920 acres to the well.

Mr. Lange: Mr. Sapp, I forgot to ask you, isn't there a third well on that acreage producing gas?

Mr. Keffer: I think there is.

The Witness: There was a well drilled recently on that.

By Mr. Keffer:

Q. In 1940?

A. I don't have that at this time because this study is based on December 31, 1939.

Mr. Lange: There was another well drilled in 1940 that was a producer.

The Witness: Yes, sir, and that still further reduces the acreage per well on that lease.

Mr. Lange: So there are three producing gas wells on that acreage?

The Witness: I believe that is correct.

By Mr. Keffer:

Q. Mr. Sapp, there has been introduced in this case a proration schedule which shows that that lease is prorated on one 640-acre tract for each well, doesn't it?

A. I don't quite understand that question.

Q. That is, there is allocated to each producing well on that lease only 640 acres. That is correct, isn't it?

The Trial Examiner: You mean under the provision that Mr. Sapp just read?

Mr. Keffer: Well, it is basically derived from that provision.

Q. Do you know that?

A. You mean—are you referring now to the proration schedule which—

Q. Which Mr. Watson in his testimony also gave to Mr. Lange.

A. I don't have a copy of that proration schedule here.

Q. Have you examined it?

A. Yes, I have.

Q. Doesn't it show just what I have—

A. I am not sure without going back and looking at that, Mr. Keffer.

Q. All right, we'll check that in a moment, but not just now.

Now, Mr. Sapp, you have been around oil fields long enough to know that where you pay rentals on a section of land because it doesn't have a well on it, that it follows from that that the section upon which you pay the rentals is not allocated any production?

A. That is right.

Q. That is necessarily so. All right. Then, regardless of the spacing on Canadian River acreage generally, the very provision of this Thompson lease which you have just read provides for spacing on that lease in effect of a well to every 640 acres, doesn't it?

A. That might follow eventually.

Q. Well, that is what I'm talking about, because there is a penalty as to each 640 acres upon which you do not drill, isn't there, that penalty being that $1 per acre per year rental on each of those sections that does not contain a well?

A. That is in the lease.

Q. Yes, that is in the lease; so you have, then—that is, you can't say that two wells or three wells is full development of that lease at this time, can you?

A. That would depend upon economic conditions as to whether it would be feasible for the company to drill the well or to continue to pay the rentals.

Q. All right—no, that isn't what the lease says. The lease says that they are obligated to reasonably develop, providing it is profitable to the company to do so. Isn't that right? It doesn't go that strong. Just what does it say? I have stated it much too strong.

Mr. Lange: The Examiner will read it.

Mr. Keffer: It is provided that they can market the gas at a profit, or words to that effect. The lease speaks for itself.

Q. Now, that is correct, isn't it?

A. That is what Paragraph 2 purports to show.

Q. The lease provides for a 3/16ths royalty, doesn't it? Your other statement shows that.

A. That's what I was looking for. The Thompson lease No. 67 provides for a 3/16ths royalty, yes.

Q. Have you checked our royalties enough to know that a 3/16ths royalty amounts to more in dollars and cents per acre per year than the $1 delay rental which Mr. Thompson gets on each section that is not drilled?

A. I haven't made that particular computation, no, sir.

Q. You don't know that on 3/16 leases that the royalty considerably exceeds $1 per acre, is that right?

A. I don't believe I ever computed that.

Q. All right, if it did exceed $1 per acre, then that obligation to reasonably develop is a very live one from Mr. Thompson's standpoint, isn't it?

A. It might be. If he would get more money out of it that way than through the rentals, it would be.

Q. If you were Mr. Thompson you would be raising "Hail Columbia," to get more wells on that lease so you would get more money in royalties, wouldn't you? That's just human nature, isn't it?

A. Well, if he could get more money out of it, of course it would be. I don't know how much it would mean to him without making the computation, and you would have to consider also the withdrawals from that acreage to find out what the proration to the acreage would be.

Q. The proration formula will show, which is in evidence—640 acres per well.

Now referring to your E. B. Johnson A lease No. 92, now, you say that Mr. Watson said that was a lease requirement. I think you are in error there, Mr. Sapp.

A. That was a little bit confused there in the record. As far as I could tell, that's what he meant, but it is possible that he might not have meant that.

Q. When he said that he was referring to the J. C. Johnson lease, he says: "No, no, it is on the original Johnson lease, not the J. C. Johnson lease," isn't that right?

A. The record is a little bit confusing there on that point, Mr. Keffer.

Q. Well, I think if you go back there—all right, now, you catch it here. Just look on the record here, Mr. Sapp. Mr. Lange asked Mr. Watson this question:

"Q. Let's segregate the lease obligation out for each year to be applicable.

"A. All right. In 1942 we drilled a well on the Thompson A lease which is a lease obligation as well as a peak load advantage from an operating point of view.

"Q. That is what year?

"A. In 1942.

"Q. 1942?

"A. Yes.

"Q. All right.

"A. That is the only well which was drilled as a lease obligation, the Thompson A?"

A. That's in 1942?

Q. That's right.

"Q. You mean which will be drilled?

"A. Yes, as a lease obligation in 1942. That is the only well excepting the exploratory well."

So he couldn't have been referring to the E. B. Johnson well as a lease requirement, could he?

A. It is possible that I have misinterpreted that particular point there.

Q. Isn't it rather clear that you did, Mr. Sapp?

A. The thing that confused me on it is where he says: "Not the J. C. Johnson lease," and yet he has a Johnson

lease in there. If he didn't mean the J. C. Johnson lease, there is only one that it could be and that's the E. B. Johnson lease, No. 92. He said he didn't mean the J. C. Johnson lease.

Q. When you go back it is definite that he wasn't counting the E. B. Johnson lease as a lease requirement.

A. I don't know which one he was counting, then, because he said it wasn't the J. C. Johnson lease.

Q. I know he started to say J. C. Johnson and then he changed it to the original lease. He wasn't talking about a lease requirement. He was talking about the four additional wells to be drilled in addition to the lease requirements; and he named one of them on the J. C. Johnson and changed it to the E. B. Johnson lease, and he wasn't talking about lease requirements. Isn't that correct?

A. I am perfectly willing, if Mr. Watson didn't mean the E. B. Johnson 92 lease, I'm perfectly willing to let that stand.

Q. What's wrong about it?

A. Because he says he wasn't talking about the J. C. Johnson lease.

Q. I know, but what was he talking about when he said that, if he wasn't talking about the lease requirements.

A. I think he was talking about the E. B. Johnson lease.

Q. Just above it there it shows that he wasn't talking about wells drilled by virtue of lease requirements when he mentioned the J. C. Johnson lease. That is perfectly obvious isn't it? I'll read it and see if that isn't correct. What he is talking about is the four additional wells in addition to the required wells, isn't it? What are you looking for?

A. A copy of Exhibit 95, the original exhibit Mr. Watson put in.

Q. 94 or 95? I think this is the one.

A. Yes, Exhibit 94 is the one I was looking for. I have a copy of that here now.

In 1942 Mr. Watson said that he had six wells to be drilled.

Q. That's right.

A. He said that one of these was the exploratory well.

Q. That's right.

A. He said that there were two wells on the Bivins lease 30 to be drilled for production and proration and one well on the Masterson. That accounted for four of the six.

Q. That's right. He also mentioned that there was one well to be drilled on the Thompson Lease No. 67, which was a specific lease obligation.

A. That's right. That acounted for five wells, and there was one well left to be accounted for.

Q. That's right. That's the E. B. Johnson well.

A. That is the E. B. Johnson well which under—

Q. But required for what? as a lease requirement? That's what you said. There is no argument about that. He said the E. B. Johnson well would be drilled that year, but didn't say it was a lease requirement, which is what you say. Now, isn't that correct?

A. Now, I am going to have to go back and read all of this testimony.

Q. I have already got it marked for you.

Mr. Lange: There may be other relevant testimony applicable.

The Witness: It is confusing here.

By Mr. Keffer:

Q. What is conflicting about it in your mind?

A. Because some place back here he said that there were two wells to be drilled under specific lease obligations. Now, I am going to have to go back and read all of this if you want to find that.

Q. Well, they are right here. I will show you that. I'll get it for you.

A. That's aside from the exploratory well.

Q. Oh, no.

A. Well, that's the way I read it.

Q. Well, let's see. We've got it right here.

A. I'd be glad to be cleared up on the point, if I'm wrong.

Q. All right, begin right here. That's on Page 3043 at Line 14. Now begin reading there. You've got it all right there.

A. All right.

Q. If you will read over here where I showed you, Mr.

Sapp, you will get the whole story. I hadn't noticed, but here right on your own records you say Page 3044.

A. Well, I say, it appeared to me to be confusing and I think that—I couldn't see when I was studying this thing how Mr. Watson could have meant that lease, and yet in order to cover the point I wanted to put it down.

Q. Since you have refreshed your memory on it, it appears that he didn't have that listed as a lease requirement.

A. Reading it in the light of what you said, I think that's right.

Q. Not what I said, but just reading the record.

Mr. Lange: Well, the record will speak for itself.

Mr. Keffer: All right.

Q. You did read the record, didn't you?

A. Yes.

Q. You find nothing in there where he referred to it as a lease requirement, is that correct?

A. I don't think he intended it to be a lease requirement.

Q. You didn't find anything in there where he called it a lease requirement, did you?

A. Well, it's a little bit confusing, but I think that's right.

Q. All right, that's good enough.

Now, Mr. Sapp, we go on with the remainder of these leases and to save time I won't take them up one at a time, but I am referring to the J. C. Johnson Lease No. 137, the Crawford Lease No. 84, the Crawford Lease No. 70, the Baker Lease No. 63 and the Bradley Lease No. 73. Now, every one of these leases will expire if they are not drilled in the years which Mr. Watson says they must be drilled, is that correct? You state that in your statement.

A. I don't think I stated exactly that, Mr. Keffer.

Q. All right, then, go ahead and tell me what will happen if those wells aren't drilled.

A. Of course, the lease will—of course it will expire.

Q. All those leases will.

A. All those leases will expire unless they are drilled by the time that is provided for in the lease, unless the release is renewed.

Q. All right, and Mr. Watson has correctly set up the years in which they must be drilled, is that correct?

The Trial Examiner: That is, in order to prevent the expiration?

Mr. Keffer: That's right, in order to prevent the expiration, that's right.

The Witness: I'm not sure but what Mr. Watson has put the time up on some of those because of those consolidations.

By Mr. Keffer:

Q. Well, why Mr. Watson provided for one well on, say, three or four leases, by virtue of a consolidation agreement in the leases, he necessarily had to put the well up prior to the earliest expiration date of those three or four leases.

A. Yes, he would have to do that, yes, sir.

Q. That's right, and that's the only exception, then, to the statement I have just made?

A. With that exception, I think that's correct, after checking it over.

Q. All right. Now, Mr. Sapp, are you—you are not a star-gazer, are you? You can't look at the stars and tell us what is going to happen, can you?

A. No, I can only look at the past.

Mr. Lange: He is not a geologist, either, Mr. Keffer.

By Mr. Keffer:

Q. Now, Mr. Sapp, do you know what attitude of mind Mr. Crawford, Mr. Read, Mr. Johnson, Mr. Baker, or Mr. Bradley, or any of the rest of them are going to have around 1943-1947 about renewing those leases?

A. No, I certainly don't.

Q. Do you have any idea they are going to be willing to renew them in the absence of drilling?

A. I don't know whether they are going to or not. I only know they have been willing to in the past.

Q. Mr. Sapp, you know of no one under the high Heaven can tell whether it is going to be possible to renew those leases, don't you?

A. I can only judge the future by what has happened in the past.

Q. How are you going to judge a thing like that that happened in the past?

A. When a thing happens three or four times in the past, I think it is at least possible it might happen once more in the future.

Q. It is possible, yes, but is it probable in a thing like this?

A. I think it might be even probable.

Q. Let's think of some of the things that may obtain. You know when a fellow has land that is underlaid with gas, he likes to have a well on that, doesn't he? He likes to get royalties, does he not?

A. Providing he can obtain more income from it that way than he can through his rents.

Q. Now, in the past it has been true that he can get as much income on rentals at a dollar an acre as from royalties on Canadian River acreage, isn't that true? Isn't that right?

A. I believe there have been times in the past where that is true.

Q. That is right, but we have reached the point where that doesn't appear to be true for the future, haven't we?

A. I don't know whether we have or not.

Q. Yes, you do. If you spent two years on this, you had better have done something or the Federal Power Commission might wonder what they are paying you for.

A. I think I have done something.

Mr. Lange: He said that he didn't study that production or proration.

By Mr. Keffer:

Q. As a matter of fact, if production for the future appears that it will be greater; that is, royalties on the production appears to be greater than a dollar per acre delay rental, there might be some difficulty to renew those leases the next time, don't you think so?

A. I don't know whether that point has been reached or not, Mr. Keffer.

Q. Assuming it has been reached, that would increase your difficulties when it came to obtain a renewal, wouldn't it?

A. If by drilling a well and if by producing gas from the land the income would be more than the income from rentals, of course the lessor would be more interested in having his property developed.

Q. Then as we go on with more drilling in the field and as gas leases become harder and harder to get, somebody else might decide they wanted the leases and offer a pretty substantial bonus, isn't that possible?

A. I think it is conceivable.

Q. Isn't it more or less a history of all gas fields?

A. That might apply to some of those leases, Mr. Keffer, the ones that are bordering on the north edge of the acreage. I can see some leases where other companies might have difficulty in getting in.

Q. How do you mean, difficulty in getting in?

A. Well, the Gage and Bradley leases are completely surrounded by other Canadian River acreages and I think it might be difficult for another producing company to come in there and lease that land.

Q. Could Canadian River keep them out?

A. They might be able to keep them out.

Q. How?

A. They might be able to prevent them from obtaining rights of way.

Q. How could they do that?

A. Because they have all of the adjacent lands under lease.

Q. That doesn't prevent the land owners from giving a surface right of way for a pipe line, does it?

Mr. Lange: It all depends upon what the provisions are in the leases.

By Mr. Keffer:

Q. You have checked the instruments. There is not a thing on earth that would prevent that, is there?

A. There are some provisions which might affect that in some of the leases. I would like to refer to the instruments to see what they state before I answered that.

Q. Other companies have gotten in, haven't they. Do you see this little white spot I see on the map? (Exhibit 95)

A. Yes.

Q. Here is another one (indicating).

A. It was some time ago they got in there.

Q. If they got in once, according to your theory, they can do it again?

A. I would have to stretch my theory a little.

Q. Here is a little white dot here (indicating).

A. The Panhandle Eastern has some wells down there.

Q. Here is another one they got into here, isn't that right?

A. Yes, there is a well in that tract.

Q. Here is another one where they got in here (indicating).

A. Down by the river, yes.

Q. Here is another one where they got in (indicating).

A. Those wells had quite a time.

Q. They got in all right, didn't they?

A. For all I know, they might have been in there.

Q. Here is another one where they got in (indicating).

A. It is in there.

Q. Here is another one where they got in, isn't it (indicating)?

A. Yes.

Q. And they had to cross the Canadian River lands to get in there, didn't they? Didn't they have to cross Canadian River's leases?

A. Yes, that is right.

Q. And it doesn't seem to have impeded them particularly, does it?

A. I would have to know what the history was on that.

Q. Mr. Sapp, are you predicating your position with respect to the Bradley and Gage leases, the fact that no other company would lease them or bid for them, because they are completely surrounded by Canadian River acreage? Is that your position?

A. I didn't say they wouldn't, but I said it might be difficult for other companies to get in.

Q. Practically all of your exhibit is on that order, isn't it?

A. No, sir, not all of it.

Q. What part of it isn't on that order?

A. The full purport of this exhibit was to show that

the obligations to drill wells which the testimony appeared to show didn't exist in the instruments.

Q. What obligations did Mr. Watson say did exist that you found didn't exist?

A. Every one I pointed out.

Q. Mr. Sapp, are you making that statement in all seriousness?

A. Yes, sir, I am.

Q. Mr. Watson stated that all of those leases we are referring to, seven or eight of them, would expire if they were not drilled, didn't he?

A. Yes, sir.

Q. That is the truth, isn't it?

A. Unless they are renewed.

Q. Well, there is your "might." That is what we are talking about. You are taking the position they might not expire because you might renew them. That is all under high Heaven you have said, isn't it?

A. (No response.)

Q. You can answer that. Answer me. That is all you have said, isn't it?

A. I have showed they have been renewed in the past.

Q. Answer my question. You say they might not expire in the future and in the absence of drilling because you might be able to renew them. That is all you have said, isn't it?

A. (No response.)

Q. You can say no if it isn't.

A. I don't think that covers my testimony to a full extent.

Q. All right. You state it if you will as to what the extent is.

A. I put down here a list of four wells which are exploratory wells that the company doesn't have to drill.

Q. Did Mr. Watson say that they had to drill them? He said they would have to drill them or terminate the leases or pay $10,000 for each well, didn't he?

A. ~~If~~ he didn't mean to say so—I don't say that he necessarily meant to say so. He left the impression the company was obligated to drill those wells.

Q. I think not, but the record speaks for ~~itself because~~

the lease has been in the record all the time and always did speak for itself as far as that is concerned.

A. As for the other ones, my testimony goes just as far as my written statement says it does.

Q. Your written statement says just what I said it said?

A. I admit I can't read into the future. I don't know what the lessors are going to do, but I can only show what has happened in the past and that is all I intended to show.

Mr. Keffer: I think that's all.

Redirect Examination.

By Mr. Lange:

Q. Your examination of the past history of those leases showed they would be renewed a number of times without any wells having been drilled?

A. Yes, some of them as many as three or four times.

Q. And in each of the previous leases the similar provisions obtained, if a well were not drilled to perpetuate the lease, the lease would expire at the end of the five-year or three-year period, or whatever it was?

A. That is generally true.

Q. No well was drilled on any one lease?

A. No, sir.

Q. And they were renewed?

A. They were renewed.

Mr. Lange: That is all.

Recross Examination.

By Mr. Keffer:

Q. But you are not testifying now that they are going to be renewed or it would be possible to renew them when the next expiration date comes up?

A. Of course I am not going to testify as to what is going to happen in the future.

Q. And if they could be renewed, you don't know what it would cost to renew them, do you?

A. No, I don't know that either.

Mr. Keffer: That is all.

Mr. Lange: You do know what it has cost in the past to renew them, don't you?

The Witness: Yes, sir.

Commission's Exhibit 291 is as follows:

Federal Power Commission
Bureau of Engineering
Division of Gas Engineering

EXHIBIT NO. 291

WITNESS

DATE

Canadian River Gas Company

CLASSIFICATION BY LEASES OF WELLS ALLEGED BY THE COMPANY IN EXHIBIT NO. 94
TO BE REQUIRED DURING THE PERIOD FROM 1941 TO 1947, INCLUSIVE(A)

Item No. (1)	Transcript Page No. (2)	Year Wells Proposed (3)	Lease Number (4)	Name of Lease (5)		Exhibit Number Assigned To Lease (6)	Wells Required to Be Drilled to Fulfill Specific Lease Obligations: Exploratory (7)	Other (8)	Wells Required to Be Drilled for Production and Proration (9)
		1941							
1	3007		81	Read	A	153		1	
2	3007		30	Bivins	A	147	1		2
3	3007		58	Masterson	B	148			1
		1942							
4	3014		30	Bivins	A	147	1		2
5	3043-44		58	Masterson	B	148			1
6	3044		67	Thompson	A	156		1	
7	3044		92	E. B. Johnson	A	157		1	
		1943							
8	3083-84		137	J. C. Johnson)		158)			
9	" "		138	Holtorf)		(B))		1	
10	" "		139	Lubberstedt)		158)			
11	3086		81	Read	A	153		1	
12	3087		84	Crawford		151		1	
13	3087		70	Crawford		151		1	
14	3090		30	Bivins	A	147	1		2
15	3090		58	Masterson	B	148			1
		1944							
16	3093		67	Thompson	A	156		1	
17	3094		30	Bivins	A	147	1		2
18	3094		69	Killgore	A	149			1
19	3094		58	Masterson	B	148			1
		1945							
20	3095		81	Read	A	153		1	
21	3095		63	Baker		158		1	
22	3095		30	Bivins	A	147			2
23	3095		58	Masterson	B	148			1
		1946							
24	3096		67	Thompson	A	156		1	
25	3096		30	Bivins	A	147			3
26	3096		58	Masterson	B	148			2
		1947							
27	3096		72	Gage)		158)		1	
28	"		73	Bradley)		158)			
TOTAL NUMBER OF WELLS ALLEGED TO BE REQUIRED, 1941-1947 (37 WELLS)							4	12	21

(A) Classification derived from testimony of Max X. Watson on transcript pages indicated in column (2).

(B) No Holtorf lease in effect December 31, 1939.

47. Original Cost of Canadian's Properties at December 31, 1928, to December 31, 1939, Inclusive, and as Estimated 1940 to 1947, Inclusive. Section A.

For Canadian there was introduced and received in evidence (Vol. LIV, p. 7477) through the witness, William A. Lusk, Accountant, whose identity and qualifications are stated supra in another portion of this Record, Exhibit 183, entitled:

"Canadian River Gas Company Original Cost of Production and Gathering Facilities at December 31, 1928 to December 31, 1939, Inclusive."

This Exhibit is prefaced by the written statement of Mr. Lusk appearing in the Record in Vol. LIII, pp. 7408, et seq. This Exhibit 183 contains six statements, numbered 1 to 6. Statement numbered 1 is a summary statement, and the other statements are the supporting statements or schedules.

This Exhibit 183 is based on the books of Canadian and reflects book entries, except as to special items explained by Mr. Lusk, as hereinafter stated, and is as follows, to-wit:

Canadian River Gas Company

Original Cost of Production and Gathering Facilities

At December 31, 1928 to 1939, Inclusive

Item No.	Account No. (Company)	Description	1928	1929	1930	1931	1932	1933
		Production System						
1	205	Leaseholds	$4,835,066	$4,766,735	$5,271,756	$5,352,827	$5,381,673	$5,398,266
2	211; 212	Gas Well Construction and Equipment	2,333,076	2,193,633	2,727,183	2,839,302	2,817,744	2,916,116
3	216	Drilling and Cleaning Equipment	-	18,013	21,684	24,113	21,048	39,842
4	209; 215; 218	Field Measuring System	34,196	30,583	32,389	43,954	45,204	45,869
5		Total	$7,202,338	$7,008,964	$8,053,012	$8,260,196	$8,265,669	$8,400,093
6		Adjustment for General Construction Cost Applicable to Net Property Additions	-	1,521	55,374	65,591	65,604	71,566
7		Total Original Cost	$7,202,338	$7,010,485	$8,108,386	$8,325,787	$8,331,273	$8,471,659
8		General Property (Allocated) (A)	36,672	36,077	35,706	39,126	40,303	41,296
9		Adjustment for General Construction Cost Applicable to Net Property Additions	-	-6	-18	30	46	87
10		Total General Property	$ 36,672	$ 36,071	$ 35,688	$ 39,156	$ 40,349	$ 41,383
11		Total Production System	$7,239,010	$7,046,556	$8,144,074	$8,364,943	$8,371,622	$8,513,042
		Gathering System						
12	206; 213; 214 221; 224	Gathering System	$1,006,268	$ 885,954	$ 922,189	$ 982,578	$1,027,468	$1,042,055
13		Adjustment for General Construction Cost Applicable to Net Property Additions	-	-	1,631	801	1,321	1,466
14		Total Original Cost	$1,006,268	$ 885,954	$ 923,820	$ 983,379	$1,028,789	$1,043,521
15		General Property (Allocated) (A)	29,891	29,837	30,425	33,023	33,940	34,337
16		Adjustment for General Construction Cost Applicable to Net Property Additions	-	-2	25	36	63	79
		Total General Property	$ 29,891	$ 29,835	$ 30,450	$ 33,059	$ 34,003	$ 34,416
17		Total Gathering System	$1,036,159	$ 915,789	$ 954,270	$1,016,438	$1,062,792	$1,077,937
18		Total Original Cost of Production and and Gathering System Property	$8,275,169	$7,962,345	$9,098,344	$9,381,381	$9,434,414	$9,590,979

Note: (A) Forward from Statement No. 3 attached

Exhibit No. 183

Statement No. 1

Canadian River Gas Company

Original Cost of Production and Gathering Facilities

At December 31, 1928 to 1939, Inclusive

1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
$4,835,066	$4,766,735	$5,271,756	$5,352,827	$5,381,673	$5,398,266	$5,403,068	$5,362,589	$5,305,263	$5,308,609	$5,328,673	$5,619,456
2,333,076	2,193,633	2,727,183	2,839,302	2,817,744	2,916,116	2,920,234	2,829,437	2,998,600	3,143,194	3,243,528	3,370,879
-	18,013	21,684	24,113	21,048	39,842	23,453	27,873	21,860	21,015	24,244	24,680
34,196	30,583	32,389	43,954	45,204	45,869	45,362	51,383	56,034	59,253	59,195	61,027
$7,202,338	$7,008,964	$8,053,012	$8,260,196	$8,265,669	$8,400,093	$8,392,117	$8,271,282	$8,381,757	$8,532,071	$8,655,640	$9,076,042
-	1,521	55,374	65,591	65,604	71,566	71,211	65,774	70,746	77,490	83,071	101,989
$7,202,338	$7,010,485	$8,108,386	$8,325,787	$8,331,273	$8,471,659	$8,463,328	$8,337,056	$8,452,503	$8,609,561	$8,738,711	$9,178,031
36,672	36,077	35,706	39,126	40,303	41,296	41,121	42,816	43,974	47,731	57,878	59,621
-	-6	-18	30	46	87	72	145	191	365	803	878
$ 36,672	$ 36,071	$ 35,688	$ 39,156	$ 40,349	$ 41,383	$ 41,193	$ 42,961	$ 44,165	$ 48,096	$ 58,681	$ 60,499
$7,239,010	$7,046,556	$8,144,074	$8,364,943	$8,371,622	$8,513,042	$8,504,521	$8,380,017	$8,496,668	$8,657,657	$8,797,392	$9,238,530
$1,006,268	$ 885,954	$ 922,189	$ 982,578	$1,027,468	$1,042,055	$1,039,916	$1,166,699	$1,178,767	$1,266,770	$1,284,256	$1,318,717
-	-	1,631	801	1,321	1,466	1,370	7,075	7,617	11,597	12,363	13,915
$1,006,268	$ 885,954	$ 923,820	$ 983,379	$1,028,789	$1,043,521	$1,041,286	$1,173,774	$1,186,384	$1,278,367	$1,296,619	$1,332,632
29,891	29,837	30,425	33,023	33,940	34,337	34,568	35,327	36,009	41,070	46,872	48,749
-	-2	25	36	63	79	86	119	148	378	632	714
$ 29,891	$ 29,835	$ 30,450	$ 33,059	$ 34,003	$ 34,416	$ 34,654	$ 35,446	$ 36,157	$ 41,448	$ 47,504	$ 49,463
$1,036,159	$ 915,789	$ 954,270	$1,016,438	$1,062,792	$1,077,937	$1,075,940	$1,209,220	$1,222,541	$1,319,815	$1,344,123	$1,382,095
$8,275,169	$7,962,345	$9,098,344	$9,381,381	$9,434,414	$9,590,979	$9,580,461	$9,589,237	$9,719,209	$9,977,472	$10,141,515	$10,620,625

Note: (A) Forward from Statement No. 3 attached

Canadian River Gas Company

Original Cost of All Properties by Systems

At December 31, 1928 to 1939, Inclusive

tem No.	Description	1928	1929	1930	1931	1932	1933	1934
	Book Costs Adjusted							
1	Production	$ 7,202,338	$ 7,008,964	$ 8,053,012	$ 8,260,196	$ 8,265,669	$ 8,400,093	$ 8,392,117
2	Gathering	1,006,268	885,954	922,189	982,578	1,027,468	1,042,055	1,039,916
3	Transmission	3,511,831	3,599,341	3,678,902	3,682,626	3,687,107	3,729,774	3,761,548
4	Total	$11,720,437	$11,494,259	$12,654,103	$12,925,400	$12,980,244	$13,171,922	$13,193,581
	General Property:							
5	Production	36,672	36,077	35,706	39,126	40,303	41,296	41,121
6	Gathering	29,891	29,837	30,425	33,023	33,940	34,337	34,568
7	Transmission	116,687	117,034	120,795	130,123	133,445	134,152	135,222
8	Total	$ 183,250	$ 182,948	$ 186,926	$ 202,272	$ 207,688	$ 209,785	$ 210,911
9	Total Book Cost	$11,903,687	$11,677,207	$12,841,029	$13,127,672	$13,187,932	$13,381,707	$13,404,492
	Adjustment for General Construction Cost Applicable to Net Property Additions							
10	Production	-	1,521	55,374	65,591	65,604	71,566	71,211
11	Gathering	-	-	1,631	801	1,321	1,466	1,370
12	Transmission	-	3,894	5,141	4,333	4,260	4,306	5,731
13	Total	-	$ 5,415	$ 62,146	$ 70,725	$ 71,185	$ 77,338	$ 78,312
	General Property:							
14	Production	-	-6	-18	30	46	87	72
15	Gathering	-	-2	25	36	63	79	86
16	Transmission	-	-6	-33	155	276	314	372
17	Total	-	$ -14	$ -26	$ 221	$ 385	$ 480	$ 530
18	Total Adjustment	-	$ 5,401	$ 62,120	$ 70,946	$ 71,570	$ 77,818	$ 78,842
	Total Original Cost of Canadian River Gas Company Property							
19	Production	$ 7,239,010	$ 7,046,556	$ 8,144,074	$ 8,364,943	$ 8,371,622	$ 8,513,042	$ 8,504,521
20	Gathering	1,036,159	915,789	954,270	1,016,438	1,062,792	1,077,937	1,075,940
21	Transmission	3,628,518	3,720,263	3,804,805	3,817,237	3,825,088	3,868,546	3,902,873
22	Total	$11,903,687	$11,682,608	$12,903,149	$13,198,618	$13,259,502	$13,459,525	$13,483,334

Statement No. 2

Canadian River Gas Company

Original Cost of All Properties by Systems

At December 31, 1928 to 1939, Inclusive

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
3	$ 7,008,964	$ 8,053,012	$ 8,260,196	$ 8,265,669	$ 8,400,093	$ 8,392,117	$ 8,271,282	$ 8,381,757	$ 8,532,071	$ 8,655,640	$ 9,076,042
8	885,954	922,189	982,578	1,027,468	1,042,055	1,039,916	1,166,699	1,178,767	1,266,770	1,284,256	1,318,717
1	3,599,341	3,678,902	3,682,626	3,687,107	3,729,774	3,761,548	3,705,991	3,711,720	3,731,434	3,822,242	3,829,731
7	$11,494,259	$12,654,103	$12,925,400	$12,980,244	$13,171,922	$13,193,581	$13,143,972	$13,272,244	$13,530,275	$13,762,138	$14,224,490
2	36,077	35,706	39,126	40,303	41,296	41,121	42,816	43,974	47,731	57,878	59,621
1	29,837	30,425	33,023	33,940	34,337	34,568	35,327	36,009	41,070	46,872	48,749
7	117,034	120,795	130,123	133,445	134,152	135,222	137,053	139,017	161,573	179,289	186,929
0	$ 182,948	$ 186,926	$ 202,272	$ 207,688	$ 209,785	$ 210,911	$ 215,196	$ 219,000	$ 250,374	$ 284,039	$ 295,299
7	$11,677,207	$12,841,029	$13,127,672	$13,187,932	$13,381,707	$13,404,492	$13,359,168	$13,491,244	$13,780,649	$14,046,177	$14,519,789
	1,521	55,374	65,591	65,604	71,566	71,211	65,774	70,746	77,490	83,071	101,989
	-	1,631	801	1,321	1,466	1,370	7,075	7,617	11,597	12,363	13,915
	3,894	5,141	4,333	4,260	4,306	5,731	3,231	3,489	4,376	8,463	8,800
	$ 5,415	$ 62,146	$ 70,725	$ 71,185	$ 77,338	$ 78,312	$ 76,080	$ 81,852	$ 93,463	$ 103,897	$ 124,704
	-6	-18	30	46	87	72	145	191	365	803	878
	-2	25	36	63	79	86	119	148	378	632	714
	-6	-33	155	276	314	372	459	555	1,563	2,386	2,736
	$ -14	$ -26	$ 221	$ 385	$ 480	$ 530	$ 723	$ 894	$ 2,306	$ 3,821	$ 4,328
	$ 5,401	$ 62,120	$ 70,946	$ 71,570	$ 77,818	$ 78,842	$ 76,803	$ 82,746	$ 95,769	$ 107,718	$ 129,032
0	$ 7,046,556	$ 8,144,074	$ 8,364,943	$ 8,371,622	$ 8,513,042	$ 8,504,521	$ 8,380,017	$ 8,496,668	$ 8,657,657	$ 8,797,392	$ 9,238,530
9	915,789	954,270	1,016,438	1,062,792	1,077,937	1,075,940	1,209,220	1,222,541	1,319,815	1,344,123	1,382,095
8	3,720,263	3,804,805	3,817,237	3,825,088	3,868,546	3,902,873	3,846,734	3,854,781	3,898,946	4,012,380	4,028,196
7	$11,682,608	$12,903,149	$13,198,618	$13,259,502	$13,459,525	$13,483,334	$13,435,971	$13,573,990	$13,876,418	$14,153,895	$14,648,821

Canadian River Gas Company

Allocation of Original Cost of General Properties to Systems

December 31, 1928 to 1939 Inclusive

Item No.	Account No. Company	Description	Basis of Allocation Per Cent	1928	1929	1930	1931	1932	1933
General Property									
1	223: 227	Bivins Camp	-	$117,428	$118,786	$124,358	$133,864	$137,320	$137,366
2	247; 248; 249 250; 256; 257	Other General Property	-	29,683	28,989	26,682	32,529	34,605	37,208
3	253	Automobiles and Trucks	-	36,139	35,173	35,886	35,879	35,763	35,211
4		Total		$183,250	$182,948	$186,926	$202,272	$207,688	$209,785
Transmission System Allocation (Exhibit No. 67)									
5		Bivins Camp	76.33 (A)	89,633	90,669	94,923	102,178	104,816	104,852
6		Other General Property	35.50 (B)	10,538	10,291	9,472	11,548	12,285	13,209
7		Automobiles and Trucks	45.70 (C)	16,516	16,074	16,400	16,397	16,344	16,091
8		Total		$116,687	$117,034	$120,795	$130,123	$133,445	$134,152
Allocated to Production System									
9		Bivins Camp	7.53 (A)	8,842	8,945	9,364	10,080	10,340	10,344
10		Other General Property	46.30 (B)	13,743	13,422	12,354	15,060	16,022	17,227
11		Automobiles and Trucks	38.98 (C)	14,087	13,710	13,988	13,986	13,941	13,725
12		Total		$ 36,672	$ 36,077	$ 35,706	$ 39,126	$ 40,303	$ 41,296
Allocated to Gathering System									
13		Bivins Camp	16.14 (A)	18,953	19,172	20,071	21,606	22,163	22,171
14		Other General Property	18.20 (B)	5,402	5,276	4,856	5,920	6,298	6,772
15		Automobiles and Trucks	15.32 (C)	5,536	5,389	5,498	5,497	5,479	5,394
16		Total		$ 29,891	$ 29,837	$ 30,425	$ 33,023	$ 33,940	$ 34,337

Note: (A) Percentages as developed on Statement No. 4 attached
(B) Percentages as developed on Statement No. 6 attached
(C) Percentages as developed on Statement No. 5 attached

Exhibit No. 183

Statement No. 3

Canadian River Gas Company

Allocation of Original Cost of General Properties to Systems

December 31, 1928 to 1939 Inclusive

...s of ...ation Cent	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
-	$117,428	$118,786	$124,358	$133,864	$137,320	$137,366	$139,637	$140,341	$142,063	$169,259	$183,023	$192,057
-	29,683	28,989	26,682	32,529	34,605	37,208	38,575	41,950	44,914	45,996	64,488	67,164
-	36,139	35,173	35,886	35,879	35,763	35,211	32,699	32,905	32,023	35,119	36,528	36,078
	$183,250	$182,948	$186,926	$202,272	$207,688	$209,785	$210,911	$215,196	$219,000	$250,374	$284,039	$295,299
3 (A)	89,633	90,669	94,923	102,178	104,816	104,852	106,585	107,122	108,437	129,195	139,702	146,597
0 (B)	10,538	10,291	9,472	11,548	12,285	13,209	13,694	14,893	15,945	16,329	22,894	23,844
0 (C)	16,516	16,074	16,400	16,397	16,344	16,091	14,943	15,038	14,635	16,049	16,693	16,488
	$116,687	$117,034	$120,795	$130,123	$133,445	$134,152	$135,222	$137,053	$139,017	$161,573	$179,289	$186,929
3 (A)	8,842	8,945	9,364	10,080	10,340	10,344	10,515	10,567	10,697	12,745	13,781	14,461
0 (B)	13,743	13,422	12,354	15,060	16,022	17,227	17,860	19,423	20,795	21,296	29,858	31,097
8 (C)	14,087	13,710	13,988	13,986	13,941	13,725	12,746	12,826	12,482	13,690	14,239	14,063
	$ 36,672	$ 36,077	$ 35,706	$ 39,126	$ 40,303	$ 41,296	$ 41,121	$ 42,816	$ 43,974	$ 47,731	$ 57,878	$ 59,621
4 (A)	18,953	19,172	20,071	21,606	22,163	22,171	22,538	22,651	22,929	27,319	29,540	30,998
0 (B)	5,402	5,276	4,856	5,920	6,298	6,772	7,021	7,635	8,174	8,371	11,736	12,224
2 (C)	5,536	5,389	5,498	5,497	5,479	5,394	5,009	5,041	4,906	5,380	5,596	5,527
	$ 29,891	$ 29,837	$ 30,425	$ 33,023	$ 33,940	$ 34,337	$ 34,568	$ 35,327	$ 36,009	$ 41,070	$ 46,872	$ 48,749

Note: (A) Percentages as developed on Statement No. 4 attached
(B) Percentages as developed on Statement No. 6 attached
(C) Percentages as developed on Statement No. 5 attached

Exhibit No. 183

Statement No. 4

Canadian River Gas Company

Basis of Allocation of Book Costs of Bivins Camp Properties

Distribution of House Occupants' Pay Roll Time (A)

House No.	Transmission (A)	Production: Production	Production: Field Measuring	Production: Total	Gathering	Total
1	100%	-	-	-	-	100%
2	50	-	-	-	-	50
3	40	60%	-	60%	-	100
4	100	-	-	-	-	100
5	-	-	-	-	100%	100
6	15	-	-	-	23	38
7	80	10	-	10	10	100
8	100	-	-	-	-	100
9	100	-	-	-	-	100
10	-	-	-	-	100	100
11	100	-	-	-	-	100
12	100	-	-	-	-	100
13	66-2/3	-	-	-	-	66-2/3
14	100	-	-	-	-	100
15	100	-	-	-	-	100
18	100	-	-	-	-	100
20	100	-	-	-	-	100
21	-	-	-	-	100	100
22	100	-	-	-	-	100
25	100	-	-	-	-	100
26	100	-	-	-	-	100
28	100	-	-	-	-	100
29	100	-	-	-	-	100
31	-	-	-	-	100	100
32	100	-	-	-	-	100
34	-	-	100%	100	-	100
35	100	-	-	-	-	100
36	100	-	-	-	-	100
37	100	-	-	-	-	100
38	-	-	50	50	50	100
39	100	-	-	-	-	100
41	80	10	-	10	10	100
Distribution of Occupancy:						
Total (Per cent)	2,331.67%	-	-	230%	493%	3,054.67%
Per cent of Total	76.33%	-	-	7.53%	16.14%	100.00%

Note: (A) As shown in Statement No. 4 of Exhibit No. 67 by W. A. Lusk

Exhibit No. 183

Statement No. 5

Canadian River Gas Company

Basis of Allocation of Book Costs of Automobiles and Trucks

Division of Property Investment at December 31, 1938

Item No.	Property Description	Transmission	Production	Gathering	Total
1	Production	-	3,203,211	-	3,203,211
2	Gathering	-	-	1,235,651	1,235,651
3	Transmission	3,635,540	-	-	3,635,540
4	Bivins Camp (A)	135,200	13,337	28,588	177,125
Production and Gathering Property Division:					
5	Amount	-	3,216,548	1,264,239	4,480,787
6	Per Cent of Total	-	71.79%	28.21%	100.0%
Total Property Division:					
7	Amount	3,770,740	3,216,548	1,264,239	8,251,527
8	Per Cent of Total	45.70%	38.98%	15.32%	100.0%

Note: (A) Distributed in Accordance with Statement No. 4 attached

Exhibit No. 183

Statement No. 6

Canadian River Gas Company

Basis of Distribution of Book Costs of Other General Properties

Distribution of Investment in General Properties at December 31, 1938

Item No.	Account No. (Company)	Property Description	Basis of Distribution	Transmission	Production	Gathering	Total
	247-E	General Office Structures					
1		Bivins Station Office	(A)	$ 1,276	$ 1,089	$ 428	$ 2,793
	248-E	Other General Structures,					
2		Bivins Station	(A)	9,392	8,011	3,149	20,552
3		Dalhart Tool Shed	Direct	166	-	-	166
4		Fritch Camp	(B)	-	5,985	2,352	8,337
5		Masterson Camp	(B)	-	2,668	1,049	3,717
	249-E	General Office Equipment					
6		Furniture and Fixtures	(A)	5,174	4,413	1,735	11,322
	250-E	General Store Equipment					
7		Bivins Pipe Rack, etc.	(A)	2,425	2,069	813	5,307
8		Dalhart Pipe Rack	Direct	476	-	-	476
9		Fritch Pipe Rack	(B)	-	239	94	333
10	256-E	General Tools and Implements	(A)	3,216	2,743	1,078	7,037
	257-E	Other General Equipment					
11		Bivins Station	(A)	237	202	79	518
12		Fritch Camp	(B)	-	1,025	403	1,428
13		Masterson Camp	(B)	-	725	285	1,010
	Distribution of Investment						
14		Amount		22,362	29,169	11,465	62,996
15		Percents of Total		35.50%	46.30%	18.20%	100.0%

Note: (A) Distributed on Basis of all Property as developed on Statement No. 5 attached
(B) Distributed on Basis of Production and Gathering Property as developed on Statement No. 5 attached

In explanation of this Exhibit 183 and the six statements or schedules constituting the exhibit, Lusk testified (Vol. LIII, p. 7408, et seq.) that the exhibit shows the original cost of the properties owned by the Canadian River Gas Company situated south of the intake of Bivins which constitute generally the producing and gathering systems of the company. The cost shown on Statement 1 by Items 1 to 4, inclusive, and by Item 12 is the cost recorded on the books at the close of the respective years shown on the statement. Undistributed construction accounts have been spread to primary construction accounts by the several system groups of property as shown on the company's statement entitled, "Comparison of Fixed Capital and Notes Issued." Bivins Camp, general garage equipment consisting of automobiles and trucks, and other general property owned by Canadian River are used jointly in the production, gathering and transmission of gas. Statement 3 shows the portions of these investments allocated to each system, and Statement 1 shows the portion of these investments allocated to the production and gathering systems. Bivins Camp is allocated on a house occupancy basis into three general groups or systems shown in detail on Statement 4 which corresponds to the company distribution of each house occupant's payroll time. Autos and trucks also used by the several systems are allocated on a division of property at December 31, 1938, as shown by Statement 5. The other general property consists of general office structures, other general structures, general office equipment, general stores equipment and general tools, implements and equipment, which are also allocated to the different systems, the allocation being based on a property distribution at December 31, 1938, as shown by Statement 6. In the items, "Adjustment for General Construction Cost Applicable to Net Property Additions," there has been added incremental cost of engineering expense, corporate and administrative expense and interest. The total of these incremental costs has been applied to net book additions of fixed capital. The adoption of these general construction costs requires corresponding adjustments to operating expenses.

With further reference to Exhibit 183 Mr. Lusk testified that the words, "original cost," as used in this exhibit mean original cost to the Canadian and what that company

paid for these properties, as reflected on its books (Vol. LIII, p. 7412); that balance sheet audits have been made each year since 1935 by Arthur Young and Company, Tulsa, Oklahoma, certified public accountants. The transmission system of the Canadian is covered by Exhibit 67 and the allocation of general property to the three systems, transmission, gathering and production, and the percentages used in this Exhibit 183 and the principles of allocation are the same as used in Exhibit 67. (Vol. LIII, p. 7414.)

On cross-examination (Vol. LIII, p. 7415, et seq.) Lusk testified that "original cost," as reflected in Exhibit 183, is original cost to the Canadian, the company which now owns and operates the property, and that in construing or defining that phrase, "original cost," he has not related it to the definition of original cost, as contained in the FPC uniform system of accounts for natural gas companies.

In preparing this exhibit he was definitely and primarily concerned with the cost to the Canadian, as reflected by its books, and not cost to its predecessors. (Vol. LIII, p. 7421.) This exhibit reflects the book cost of the property and is the actual dollars paid for the property by the Canadian. (Vol. LIII, p. 7422.)

Up until about the middle of the year 1940 the company books had reflected upon them an account entitled, "Appreciation Account." (Vol. LIII, p. 7423.) That account was strictly confined to leaseholds (Vol. LIII, p. 7424) but was eliminated in 1940. The "Appreciation Account," while on the books, represented the difference between the purchase price paid by Canadian to Amarillo Oil Company for gas leaseholds in 1928 and the cost of such leaseholds to Amarillo Oil Company, as reflected on its books at the time of the transfer. This account showed so-called appreciation on operated leases at December 31, 1938, of $3,094,179.85 and on unoperated leases of $27,270.85. (Vol. LIII, p. 7427.) The amounts set forth in this "Appreciation Account" for each of the years 1928 to 1938, both inclusive, are shown in Volume LIV, p. 7452. The account was closed out at the end of 1939, and the amounts in that account were charged to the leasehold account included in Item 1, Exhibit 183. (Vol. LIV, p. 7453.)

The elimination of this leasehold appreciation account appearing on the company books for the years 1928 to 1938,

inclusive, and the removal of the amounts contained in that account to the leasehold account has not resulted in any entries in the surplus account whatsoever. The surplus account was not affected. If the Canadian had not actually paid $5,000,000 for the leaseholds and wells and if the so-called appreciation represented a writeup, it would be reflected in the surplus account. (Vol. LIV, p. 7473.) From Lusk's examination of the books and records of the company, it is disclosed without question that the company did pay the $5,000,000 for the leaseholds and wells involved. The "Appreciation Account" from what he could learn in going through the records of the company was set up purely for income tax purposes. (Vol. LIV, p. 7474.) The Southwestern Development Company and all its subsidiary companies, including Canadian, filed consolidated income tax returns with the Bureau of Internal Revenue. In 1928 when the actual transfer of the physical properties was made to Canadian, the Internal Revenue Department ruled that Southwestern Developemnt Company was not subject or liable for tax on the so-called entries between the book values of Amarillo Oil Company and the selling price, and naturally would not allow Canadian to deplete and depreciate on that so-called excess. The Bureau of Internal Revenue did not assess any tax on the profit from that sale. While Mr. Lusk had not seen the tax returns themselves, he stated his opinion as to the reason why no tax had been assessed on that profit was because on a consolidated return profits and losses between companies included in the consolidated returns would be eliminated. (Vol. LIV, pp. 7475, 7476.)

(The evidence relating to the payment of the $5,000,000 for the leaseholds and wells and related matters is fully abstracted elsewhere.)

With further reference to other items in Statement No. 1, Exhibit 183, Witness Lusk testified that Item No. 2, "Gas Well Construction and Equipment," is in acc[illegible]dance with the books of the company, shows cost to the company per books with one adjustment only in the gas well account appearing in every year from 1928 to 1939, which was taken out as a credit against gas wells and applied against leases; otherwise, the figures are per books for gas wells. (Vol. LIII, p. 7428.)

Item 3, "Drilling and Cleaning Equipment," is per books

unadjusted, and Item 4, "Field Measuring System," is also per books unadjusted.

The general property (allocated) items numbered 8 and 15 have been explained above.

As to Item 6 (Vol. LIII, p. 7429) and also Item 13 (Vol. LIII, p. 7434), "Adjustment for General Construction Cost Applicable to Net Property Additions," Mr. Lusk testified that it is the application of 3½% engineering and general and administrative overhead, plus 1% for interest on all of the net property additions from 1929 to 1939, and the amounts shown in Lines 6 and 13 are cumulative amounts. (Vol. LIII, p. 7429.) Mr. Lusk stated these items should have been capitalized because under the old Pennsylvania Code of Accounts and also in the new FPC Code of Accounts, and in all of the codes in existence referring to gas companies, a proportionate amount of engineering, administrative, general and all other expenses incident to construction and a reasonable amount of interest can be charged to construction. (Vol. LIII, p. 7430.) He determined 3½% to be a reasonable percentage, this being primarily his job. He stated he thinks he has followed the FPC's uniform system of accounts, page 42, paragraph 6, and particularly Paragraph B, in arriving at this percentage for engineering, general and administrative amounts and an overall 1% for interest; that such percentages are not arbitrary or unreasonable and are based upon the incremental cost for a five-year period (Vol. LIII, p. 7433); that he did not resort to the time sheets employed in the operations, but took the overall operations and the overall maintenance cost and all other expenses that are subject to administrative supervision and necessary clerical and legal assistance and found an overall per cent. (Vol. LIII, p. 7433.)

Mr. Lusk, in the course of his testimony, testified as follows: (Vol. LIII, pp. 7408-7434.)

(Exhibit 183, Witness Lusk, marked for identification.)

By Mr. Spencer:

Q. Have you included in this exhibit a written statement?

A. Yes, sir.

Q. Will you read that into the record, please?

A. "This exhibit shows the original cost of the properties owned by Canadian River Gas Company situated south of the intake of Bivins which constitute generally the producing and gathering systems of the company.

"The costs shown on Statement No. 1 by Items Nos. 1 to 4, inclusive and by item 12 are the costs recorded on the books at the close of each year of 1928 to 1939, inclusive. Undistributed construction accounts have been spread to primary construction accounts by the several system groups of property as shown on the company statement entitled 'Comparison of Fixed Capital and Notes Issued.' Undistributed costs are constant each year except for minor changes in 1928 and 1929.

"Allocation of General Property

"Bivins camp, general garage equipment consisting of automobiles and trucks, and other general property described later in more detail, owned by Canadian River, are used jointly in the production, gathering and transmission of gas. The portions of these investments allocated to each system as later described, are shown on Statement 3.

"Bivins camp is allocated on a house occupancy basis into the three general groups or systems as shown on Statement 4, which corresponds to the company distribution of each house occupant's payroll time.

"Autos and trucks also used by the several systems are allocated on a division of property at December 31, 1938 as shown on Statement 5.

"The other general property consists of general office structures, other general structures, general office equipment, general stores equipment and general tools, implements and equipment. The portions allocated to each system are based on the property distribution at December 31, 1938 as shown on Statement 6.

"Adjustments for General Construction Costs

"There has been added incremental costs of engineering expense, corporate and administrative expense and interest, which are fully described and detailed in the memorandum prepared by Ford, Bacon & Davis, Inc., entitled 'Items Charged to Expense on the Books of the Canadian River

Gas Company during the period 1930 to 1939, inclusive, which should have been capitalized,' dated April 15, 1940. The total of these incremental costs have been applied to net book additions of fixed capital. The addition of these general construction costs to fixed capital requires corresponding adjustments to operating expenses.

"All Properties Owned.

"For convenience the original cost of all property owned by Canadian River Gas Company has been summarized on Statement No. 2 by systems. The details of the transmission system costs were presented in Exhibit No. 67."

Q. Now, attached to that written statement you have six separate schedules or statements.

A. There are six statements incorporated in this exhibit.

Q. Will you go through there, starting with Statement 1, and briefly describe the nature of each statement?

A. Statement 1 shows the original cost of production and gathering facilities at the end of each year from 1928 to 1939. It begins with the production system accounts, 205, leaseholds; 211 and 212, gas well construction and equipment; 216, drilling and cleaning equipment; 209, 215 and 218, field measuring system.

In addition to that on Line 6 there is an adjustment for general construction costs applicable to net property additions. Line 7 shows the total original cost of the system as per books with the adjustment for general construction costs in Line 6.

Line 8 on Statement 1 is the allocation of general property which is taken from Statement 3 shown in the Exhibit.

Line 9 is the adjustment for general construction cost applicable to net property additions which is covered in the text and also in the memorandum of April 1940 that was submitted to the Federal Power Commission.

Q. I don't know as I would go into such detail, Mr. Lusk, because I am sure Mr. Lange is going to ask you the same thing over again.

A. I will shorten it.

Mr. Lange: Go ahead and ask him the questions

Mr. Spencer: All right.

Q. Please continue.

A. Line 11 is the total production system property. Beginning with Line 12 it is the gathering system. Line 14 is the original cost of the books and Line 5 is the general property allocated; Line 16 shows the adjustment for general construction applicable to the general property, and I skipped Line 13 which is the general cost applicable to the gathering system property.

Line 17 is the total gathering system property, and Line 18 is the total original cost of the production and gathering system property.

Q. By the way, you might put in there, Mr. Lusk, what you mean by the words "original cost" as used in this study.

A. This is the original cost to the Canadian River Gas Company. It is what the Canadian River Gas Company paid for these properties.

Q. As reflected on its books?

A. Yes.

Q. By the way, I don't believe I asked you heretofore, but I will ask you the question now:

To what extent do the books and accounts of Canadian River Gas Company receive an audit by certified public accountants?

A. Arthur Young and Company certify the balance sheet of the Canadian River Gas Company each year.

Q. Have they done that for a number of years?

A. Since about 1935.

Q. You have access to their certified statements?

A. I have read their report and certified statements.

The Trial Examiner: What is the name of that company?

The Witness: Arthur Young & Company in Tulsa, Oklahoma.

By Mr. Spencer:

Q. All right, now, take Statement 2, Mr. Lusk.

A. Statement No. 2 shows all of the property of the Canadian River Gas Company, production, gathering, and

transmission. The transmission was covered in Exhibit 67 as part of the Denver line from the Bivins intake north. This statement is merely to tie in all of the property accounts of the Canadian River Gas Company.

Q. In one place?

A. In one place.

Q. Therefore, you do not have to combine Exhibit 67 and this exhibit in order to get the total?

A. No, sir, there is no necessity of jumping from one exhibit to another as it is all in Statement 2.

Q. All right.

A. Statement 3 shows all of the general property and the allocation of the general property to the three systems, transmission, gathering and production, and the percentages used on Statement 3 are shown on Statements 4, 5 and 6, under Notes A, B and C.

Q. For your basis of allocation there of percentages, does that involve the same principles that you used or employed in Exhibit 67?

A. Yes, sir. The only difference in this statement here is that we have separated the production and gathering system from Exhibit 67 which was termed south of Bivins.

Q. I see.

A. Statement No. 4 is the allocation of the Bivins camp properties on a house occupants' payroll time the same as we have done in Exhibit 67.

Statement No. 5 is also distributed, using the same method used in Exhibit 67, and this Statement No. 5 is the same as Statement No. 5 in Exhibit 67.

Statement No. 6 is the distribution of investment in general properties, general office structures at the Bivins station, and the other general structures; general office equipment, store equipment, general tools, and implements, and other general equipment as shown on the books of the company. This is all distributed on a property basis.

Mr. Spencer: That is all.

Cross Examination.

By Mr. Lange:

Q. Now, Mr. Lusk, this Exhibit 183 was prepared by you and I note on the first page of the written statement you state: "This exhibit shows the original cost of the

properties owned by Canadian River Gas Company situated south of the intake of Bivins which constitutes generally the producing and gathering systems of the company."

Is that right?

A. That is right.

Q. And constitutes all of the producing and gathering system properties of the company?

A. Including the leases, yes, sir.

Mr. Spencer: Except for the summary or recapitulation you make in Statement 2?

The Witness: I cover that next. That is for convenience, doing it that way so that you will not have to jump between Exhibit 67 and Exhibit 183.

By Mr. Lange:

Q. Now, then, you state that original cost as reflected in this exhibit is what you deemed to be original cost of the properties to Canadian River Gas Company?

A. That is correct.

Q. Is that the way you interpret that original cost as employed in this exhibit?

A. That is my interpretation of the term "original cost." That is the original cost to the company that now owns and operates the property.

Q. In construing that phrase or defining it, as you have, have you related that in any way to the definition of original cost as in the Uniform System of Accounts for natural gas companies?

A. No.

Q. Of course, you know that definition reads:

"Original cost as applied to gas plant means the cost of the property to the person first devoting that to the public service." You are familiar with that definition?

A. Yes.

Q. What is your opinion with reference to that phrase as being applicable in this instance?

A. I don't subscribe to that doctrine.

Q. You don't?

A. No, because I don't believe in it.

Q. As an accountant, don't you believe in it?

A. An accountant is entitled to his own opinion and he doesn't have to subscribe to any doctrine.

Q. You say accountants don't subscribe to that? Why?

A. Just for the reason that I don't believe in it.

Q. You don't believe in it?

A. No.

Q. You don't have any particular views about it otherwise justifying that opinion?

A. Yes, I do. In the first place "when first devoted to the public service," I don't think in this particular case it has any bearing on it because no one knows when it was actually devoted to public service.

Q. Well, why wouldn't it be possible for anyone to know those facts?

A. I don't think it is. The mere fact gas was distributed in the early days of 1920 to a pipe line doesn't necessarily mean that that gas was devoted to public service.

Q. Well, what in your opinion does the phrase "public service" apply to?

A. That is what I don't know. What is public service?

Q. You have no opinion as to how you interpret the words "public service"?

A. No. Public service is a public service. Now, a gas company or electric company or telephone company may be devoted to public service; that is, they are granted the right to serve the public.

Q. You wouldn't say that it requires some particular legislative action, either of the city, state or Federal Government, to make it necessary for the property to be devoted to public service?

A. Oh, yes. The companies ordinarily obtain a franchise to distribute their commodity to the public. Canadian River Gas Company has no franchises.

Q. You don't mean to say it is necessary to have a franchise before property can be dedicated to the public service or be used in the public service?

A. That may or may not be true. As far as the legal phraseology or the legal entanglements around a franchise, I don't know very much about that.

Q. Isn't it your opinion that property could possibly be devoted to the public service in the absence of any franchise at all?

A. It is doubtful.

Q. It is doubtful?

A. Yes.

Q. You say that it would be doubtful whether the property could reasonably be devoted to the public service unless there was a franchise?

A. That would be my construction of it.

Q. Well, supposing a company were to serve an unincorporated community that was never either in its county subdivisions, or in its municipal organization had never gotten to the point where it was either incorporated or had any kind of legal unit and there were a group of houses where people lived, stores or other places where possible gas consumers lived, resided or had their places of business, and a transmission line traversed that vicinity and those people desired to use gas and the company served them. It wouldn't be necessary to have a franchise there? No one could issue a franchise.

A. Except the County Commissioners, they might.

Q. Suppose no requirements were made by the County Commissioners for a franchise for such use?

A. The company then would be selling gas off the line, what we call high-line deliveries.

Q. You wouldn't say that gas served to those consumers there, that that wouldn't be a public use made of the gas?

A. No, I wouldn't. The company could shut that gas off at a moment's notice. I know they would.

Q. Even after putting in facilities, connected it up and served them?

A. No, they wouldn't put the facilities in. The consumers would build the line and tap off the main line.

Q. In other words, the consumers—taken for granted the consumers build the tap to the main line, the consumers all pay for their own facilities and the company would serve those consumers—there may be quite a large group of them—and either for residences, for residential use, hot water heating, for fuel, for commercial use and serve them for some time. You say that they could cut them off?

Mr. Spencer: Mr. Examiner, I have let this go on for a long time thinking maybe it would stop, but he has said he has not used the definition of original cost contained in the Uniform System of Accounts of the Commission which includes the phrase "dedicated to a public use." He has not considered that in his original cost. He so stated. He is not a lawyer and the question of whether property is

devoted to public use or not is purely a legal question depending on all the facts involved; and particularly since he has not used any such system in preparing his study, I do not see why we need to encumber the record with Mr. Lusk's opinions which may not be very good on purely legal problems.

Mr. Lange: I was just pursuing it; predicated on the basis of what the Uniform System of Accounts has to say as to how it defines original cost, and the devotion to a public service.

Mr. Spencer: He has not used it.

Mr. Lange: As an accounting matter and interrogating him as to his opinion as to the application of that in the—

The Trial Examiner: I think you are going a little beyond the accounting part of it, Mr. Lange. It is very interesting ~~and I have~~ enjoyed Mr. Lusk's discussion of our Uniform System of Accounts.

Mr. Lusk: I will not pursue that any further. I really wanted to see what his views are with reference both as to the term "original cost" as well as devoted to a public service.

The Trial Examiner: Very well. However, I think Mr. Lusk has stated quite definitely the use of his term "original cost" here in the manner in which he has used it.

Mr. Lange: Yes, sir.

Q. Then going back to this particular exhibit 183, Mr. Lusk, you stated in connection with this particular property covered by this particular exhibit that it was not possible to determine when it was devoted to a public service.
A. I did not make any study of that for the purposes of this exhibit.
Q. Oh, you did not?
A. No.
Q. In other words, even before you prepared this exhibit you were definitely of the opinion that it was not possible to determine the time at which the property was devoted to the public use?
A. No, I wouldn't say that. When I prepared this exhibit I was definitely and primarily concerned with the

cost to the Canadian River Gas Company, not its predecessors.

Q. You were primarily concerned with determining what the cost was to Canadian River Gas Company as reflected by its books?

A. Exactly.

Q. Then this exhibit where you set forth the items of the several properties, particularly the beginning of Statement 1 of the exhibit, "Production System and Gathering System," for each of the years and in each of the columns as set forth in that Statement No. 1, that reflects the book costs on the books? the book costs of the property?

A. It is the book cost of the property and it is the actual dollars paid for this property by the Canadian River Gas Company.

Q. By the Canadian River Gas Company?

A. Yes, sir.

Q. So then when you make the statement in your written statement and also in the exhibit in other places, labeling this as original cost, you in fact mean that that is the cost as appearing on the books of Canadian River Gas Company?

A. That is the original cost to Canadian River Gas Company.

Q. As reflected on the books of Canadian River Gas Company?

A. As reflected on the books, yes, sir.

Q. And you don't intend to give that phrase "original cost" any other implication or meaning?

A. It does not purport to mean anything else except what the Canadian River Gas Company paid for the properties.

Q. Now, in connection with the preparation of this as well as any of the other accounting exhibits in this proceeding by you, what information did you have before you as to the accounts that is designated "Appreciation Account" on the Canadian River Gas Company's books?

Mr. Spencer: May I interject there, Mr. Lange? I will say for the record now that Mr. Lusk at my request has made a complete study of original costs of the properties of Amarillo Oil Company which were transferred to Canadian River Gas Company at its inception and he will have an exhibit here on that subject in which your appreciation will be brought out. I would prefer to have you cross examine on that subject at that time.

Mr. Lange: I just wanted to ask this question about it and then we won't pursue it any further in view of Mr. Spencer's statement:

Q. Canadian River Gas Company's books do have reflected upon them an account entitled "Appreciation Account"?

A. Not now.

Q. Well, when did they have it and when did they cease having it?

A. That appreciation account was carried, as far as the leasehold was concerned, up to about 1939—or about the middle of 1940.

Q. About the middle of 1940?

A. Yes, sir.

Q. And that account was confined to leaseholds?

A. Strictly.

Q. Strictly?

A. Yes, sir.

Q. And in your exhibit that you will present you will also—or, will there be anything in that with reference to what the appreciation account on leaseholds as it had appeared on Canadian River Gas Company's books show?

Mr. Spencer: Well, if it is not in there we will supply any deficiencies to tie into this one so as to make it complete for you for that purpose.

Mr. Lange: Very well.

Q. Now, you stated that since 1940 there has been no such account on the books of Canadian River Gas Company?

A. That is correct. As a matter of fact, the general accounts of Canadian River Gas Company now have eliminated the term "appreciation of leaseholds" and they are all "leaseholds" now. The account is known as "leaseholds."

Q. Why was that change made?

A. Apparently for convenience—

Mr. Spencer: If you know, Mr. Lusk.

The Witness: Well, I don't know. Were you going to ask a question?

By Mr. Lange:

Q. At whose instance was it made? Did you have charge of that change, the making of that change?

A. No, sir.

Q. Who did?

A. I couldn't say. It probably came from somebody in New York, I believe.

Q. And did you in connection with your work inquire or have any occasion to ascertain for yourself why that change was made?

A. No, sir, I never paid any attention to it until I saw one of the statements in 1940 and I saw that the appreciation was absorbed in the leasehold account and that was the end of it.

Q. Well, this exhibit, Statement 1, is through December 1939—December 31, 1939?

A. Yes, sir.

Q. Well, at December 31, 1939 that account entitled "Appreciation" referring to leaseholds was still on the company's books?

A. That is correct.

Q. And with that particular title to it, it was entitled "Appreciation" on the company's books as of that time, or do you have your working papers to show how exactly it appeared?

A. I thought I had a 1939 statement, but I don't. It's 1938.

Mr. Spencer: It came off in 1939.

The Witness: I believe I can answer that, Mr. Lange, by making reference to a statement.

By Mr. Lange:

Q. You will make a note of that, then?

A. My recollection was it came off sometime in 1940 but I may be wrong about that.

Q. Do you know what that account contained when it was on the books?

A. Yes.

Q. What was it?

A. It was the difference—it represented the difference between the purchase price to Canadian River Gas Company and the so-called value of the leases as determined by the Amarillo Oil Company at the time of transfer.

Q. What was the actual figures that that account reflected in dollars and cents?

Mr. Spencer: As of what date?

Mr. Lange: Well, let's take it as of December 31st, 1939.

The Witness: Well, the entire leasehold account as I show it here under Account 205, is $5,619,456. That is on Line 1.

Mr. Spencer: Can you give him the so-called amount of "Appreciated"—

By Mr. Lange:

Q. Appreciation?
A. No, I can't in this schedule. I will have to look it up.
Q. You will have to work it up?
A. No, I won't have to work it up, I will have to look it up.
Q. As of December 31, 1938.

Mr. Spencer: Mr. Lange will change the question to December 31, 1938.

By Mr. Lange:

Q. That is right.
A. I can give it to you as of 1938.
Q. Yes.
A. The so-called appreciation on leases operated was $3,094,179.85, and the so-called appreciation on unoperated leases was $27,270.85.
Q. And you will get it for 1939?
A. Yes, sir.
Q. And now I will ask you—these items on Statement 1 of the exhibit following leaseholds, that is, the next one on that Statement 1, "Gas Well Construction and Equipment" throughout each of the years from 1928 to 1939, is that as per books, the cost of those items to Canadian River Gas Company, as per books?
A. Yes, with one adjustment in the gas well account.
Q. With what adjustment?
A. One adjustment in the gas well construction and equipment.
Q. When was that adjustment made?
A. That appears in every year from 1928 to 1939.

Q. And what does that consist of?

A. It is the gas department adjustment account which I have taken out as a credit against gas wells and applied against leases.

Q. And otherwise the figures are as per books for gas wells?

A. In total, yes, sir.

Q. Now, the next item on that statement, the "Drilling and Cleaning Equipment," are those as per books, unadjusted?

A. Yes, sir, unadjusted.

Q. And the fourth, "Field Measuring System," those also are as per books unadjusted?

A. Yes, sir, unadjusted.

Q. Now, these items; that is, "Gas Well Construction and Equipment," "Drilling and Cleaning Equipment," "Field Measuring System," were any of those included in this appreciation account?

A. No, sir.

Q. That appreciation account, then, as I take it, confined itself entirely to gas leaseholds?

A. Entirely.

Q. Now, your general allocation on Statement 1 of the Exhibit, that was taken from Statement 3?

A. Yes, sir.

Q. Just briefly, what method of allocation did you employ in that?

A. Well, on the Bivins camp it was allocated on a house occupancy basis, and on the other general property and on the automobiles and trucks it was allocated on a straight property basis—dollar basis.

Q. Dollar basis?

A. Yes.

Q. Going back to Item 6 of Statement 1, "Adjustment for General Construction Cost Applicable to Net Property Additions," what is that item?

A. That is the application of 3½ per cent engineering and general and administrative overhead plus one per cent for interest on all of the net property additions from 1929 to 1939, and the amounts shown in Line 6 are cumulative amounts.

Now, all of that was covered very completely in a memorandum submitted to the Federal Power Commission in Washington on April 15, 1940.

Q. Is that what you are referring to in your statement on Page 2?

A. Yes, sir.

Q. Where you have referred to the memorandum entitled "Items charged to Expense on the Books of Canadian River Gas Company during the period 1930 to 1939, inclusive which should have been capitalized"?

A. That is the memorandum I refer to.

Q. Now, then, why do you say those items should have been capitalized?

A. Well, under the old Pennsylvania Code of Accounts and also in the new Federal Power Commission Code of Accounts a proportionate amount of engineering, administrative, general and all other expenses incident to construction and a reasonable amount of interest can be charged to construction. I think all of the codes ever in existence referring to gas companies contains those clauses.

The Trial Examiner: You think that provision of the code is all right, do you, Mr. Lusk?

The Witness: Well, I subscribe to that, yes, sir. There are certain features of the new code that I don't subscribe to.

By Mr. Lange:

Q. Now, what percentages did you employ?

A. Three and a half per cent for engineering, general administrative and an overall one per cent for interest.

Q. What basis did you have for employing each of those percentages?

A. We developed in this memorandum an incremental cost between years of three and a half per cent for corporate and engineering cost and interest during construction of one per cent. That is shown on Page 6 of this memorandum.

Q. Who in the organization determined the percentages that they believed reasonable or applicable under such conditions?

A. Well, it is primarily my job. I made the entire re-

port up in the field, and it was sent to New York to be typed and before it was submitted to the Federal Power Commission it came back to me in the field for approval.

Q. Then you reached that conclusion yourself as to the correctness of those percentages as being applicable here?

A. No, the reasonableness of those percentages.

Q. The reasonableness of those percentages?

A. Yes, sir.

Q. Do you have a copy of the Uniform System of Accounts here, Mr. Lusk?

A. The new Federal Code?

Q. Yes, sir.

A. No, sir.

(The document referred to was passed to the witness.)

By Mr. Lange:

Q. Turn to Page 42, Mr. Lusk, under the instructions of gas plant account.

A. Yes, sir.

Q. Paragraph 6. "Overhead Construction Costs."

"All overhead construction costs, such as engineering, supervision general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes, and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the gas plant accounts at the time the unit of property is retired."

What is your opinion with reference to that?

A. Well, I think I have followed that.

Q. Well, you—

A. That is only the last paragraph there relates to retirements. I am not talking about retirements; I am talking about additions.

Q. That is right. Now let us go further to the sections that are really applicable. Paragraph B, that's the one:

"The instructions contained herein shall not be inter-

preted as permitting the addition to gas plant accounts of arbitrary percentages or amounts to cover assumed overhead costs, but as requiring the assignment to particular jobs and accounts of actual and reasonable overhead costs."

What is your construction of that paragraph?

A. Well, that is exactly what we have done here. We have not assigned any arbitrary or unreasonable costs. It is a pure arithmetical derivation of certain overhead costs between years.

Q. And in what fashion did you arrive at those particular percentages, or what bases did you use to compute them?

A. Well, we took the incremental cost between certain periods—between 1935—the five-year average between 1933 and 1936 and arrive at 3.49.

Q. Did you in arriving at that have available and make use of any of your records as to the time cost—the time sheets employed in the operations?

A. No, I did not resort to that at all. I took the overall operations and the overall maintenance costs and all of the other expenses that are subject to administrative supervision and necessary clerical and legal assistance and found an overall percent.

Q. Did you know exactly the amount of time actually devoted to each of those items on the job?

A. No, if I had known that there wouldn't be any necessity of setting this up. It would have been charged directly to construction at the time.

Q. And that was not available?

A. Not that I know of. There wasn't any overhead or interest added in either of the accounts of Canadian River Gas Company or the Colorado Interstate Gas Company for administrative, legal and other general supervision since 1928.

* * * * * * *

Mr. Lusk further testified: (Vol. LIV, pp. 7473-7476.)

By Mr. Spencer:

Q. Now, Mr. Lusk, Mr. Lange has asked you some questions about a so-called leasehold appreciation account appearing on the books of Canadian River Gas Company for

the years 1928 to 1938, inclusive, and you have given the figures applying in such an account, have you not?

A. Yes, sir.

Q. I will ask you if the entries in that particular account resulted in any entries in the surplus account whatsoever?

A. None whatever. The surplus account was not affected.

Q. I take it if the Canadian River Gas Company had not actually paid $5,000,000 for the leaseholds and the so-called appreciation represented a writeup, it would be reflected in your surplus account, would it not?

A. If the Canadian River Gas Company attempted to write the value of any of that property up it would be reflected in the surplus account.

Q. You understand that the account was set up in this way for the purpose of carrying out an agreement with the Bureau of Internal Revenue with respect to income taxes.

Mr. Lange: Whatever he knows as a matter of fact—

Mr. Spencer: I will turn the question around.

Q. What do you understand was the purpose for setting up this particular account in this fashion?

A. When the Canadian River Gas Company purchased several gas and oil leases for the sum of approximately $5,000,000 the accounts were so restated on the books of the Canadian River Gas Company to show a so-called leasehold appreciation account which from what I can learn and from going through some of the old records of the company, was set up purely for tax purposes.

Q. As far as you know—strike that.

From your examination of the books and records of this company, it discloses without question that the company did pay the $5,000,000 for the leaseholds involved?

A. I don't think there is any dispute about that.

Mr. Spencer: That is all.

The Trial Examiner: Do you have any further questions, Mr. Lange?

Mr. Lange: Yes.

Recross Examination.

By Mr. Lange:

Q. You referred to the phrase "set up for tax purposes;" just how would you define that?

A. Well, the reason that was set up for tax purposes, all I can learn in going through some of the old records in 1928, 1929, and '30, was that there were consolidated returns.

Mr. Spencer: What do you mean by consolidated returns?

The Witness: The consolidated return is where several companies consolidated in a group for their tax returns.

By Mr. Lange:

Q. Canadian River Gas Company and Southwestern Development Company?

A. Yes, sir.

Q. And all other subsidiaries of Southwestern Development Company?

A. That is right.

Q. They consolidated their tax returns in the report to the Bureau of Internal Revenue?

A. That is correct.

Q. And in what respect did this item have to do with it?

A. In 1928 when the actual transfer of the physical property was made the Internal Revenue Department allowed the Southwestern Development Company or, ruled, rather, that the Southwestern Development Company was not subject or liable for tax on the so-called entries between the book values and the selling price, so naturally the Internal Revenue Bureau was not going to allow the Canadian River Gas Company to deplete and depreciate on that so-called excess.

Q. Did the Bureau of Internal Revenue assess any tax on that profit from the sale?

A. No.

Q. Do you know why they didn't?

A. No, sir, I don't. It was probably because it was through the medium of consolidated returns. That is the only answer I could give you.

Mr. Spencer: In other words, Mr. Lusk, on a consolidated return profits between companies included in the consolidated returns would be eliminated?

The Witness: That is correct.

Mr. Spencer: And, likewise, the losses?

The Witness: That is correct.

By Mr. Lange:

Q. Of course, you don't know of your own knowledge? A. No, I haven't seen the tax returns made in those years.

For Federal Power Commission there was identified (Vol. XXXVIII, p. 5148) and received in evidence (Vol. LXXXXI, p. 13854) Exhibit 146, prepared by Witnesses Luttring and Teel. This exhibit was admitted in evidence over the objections of Canadian and Colorado Interstate (Vol. LXXXXI, pp. 13851-13854), which objections were as follows:

Mr. Spencer: The first objection I want to state to all of these exhibits is in so far as they involve depreciation and depletion taken from Mr. Hammer's calculations and figures in Exhibits 179 and 180, and I want to renew the objections to each one of these exhibits that have been made to Mr. Hammer's exhibits themselves. May that be understood without repeating it each time?

The Trial Examiner: Yes, I think so.

Mr. Spencer: Then this further statement with reference to Exhibit 146 at the moment: In addition to the general jurisdictional objection set forth in the respondent's amended answer filed in these proceedings and also the general jurisdictional objection reserved by the respondent company, at the opening of this hearing, Canadian River Gas Company and Colorado Interstate Gas Company jointly and separately object to the introduction of Exhibit 146 and each separate item therein contained.

The examination of witnesses has shown the date as a whole contained therein is irrelevant and immaterial to the issues in these proceedings and that certain of the data

contained therein and related thereto has not been properly computed or determined for any purpose. Without any way limiting the generality of the above objection, counsel desires specifically to mention the following points:

1. The Natural Gas Act excludes jurisdiction over production and gathering. The data contained in the exhibit which relates to that part of the business of Canadian River can have no bearing upon this proceeding since the Commission is without jurisdiction over that part of the company's operations.

2. The contract of January 3 1928 between Canadian River and Colorado Interstate is the determining factor in fixing the price of gas sold by Canadian River to Colorado Interstate and any consideration by the Commission of original cost data is irrelevant and immaterial because the contract is binding and cannot be legally disregarded by the Commission.

3. As disclosed by the examination of the witnesses who prepared Exhibit No. 146 the same is not prepared pursuant to instructions contained in the Code of Accounts as established by the Federal Power Commission but represents adjustments and reclassifications based entirely upon the personal opinion of the witnesses. The exhibit, therefore, does not properly show or reflect the original cost of the properties of Canadian River as required by the Commission's Code of Accounts.

4. The examination of witnesses has disclosed numerous errors in basic information which is the basis of some of the adjustments made and the lack of knowledge on the part of the witnesses of facts essential to support the changes made by the witnesses. These errors were not separated from the exhibit in such a way as to permit the remaining portions that are unobjectionable.

5. The exhibit is not an accounting analysis based upon accounting principles or upon the Code of Accounts established by the Power Commission but represents the conclusions of the witnesses as to what should be done purely for rate case purposes. Both witnesses have admitted they have no qualifications as rate experts ~~and no~~ previous experience in such matters; therefore, the con-

clusions of the witnesses as expressed in these entries are inadmissible because the witnesses are not qualified to express such opinion.

Mr. Lange: Mr. Examiner, the Commission when it entered its order of investigation in this docket G-114, spelled out I think very clearly what the scope of the investigation is to be. There is no question in my mind but all matters relevant and material to the matters set up in the Commission's order are relevant and material here. I don't believe there is anything in Exhibit 146 that goes beyond that, and I move the admission of the exhibit.

The Trial Examiner: The objection stated by respondent's counsel I might say is an all-embracive one and will require considerable study on the part of the Examiner to determine the merit or demerit of the objection. That will be done in time and the Examiner is inclined to admit the exhibit in evidence at this time and in the event that merit is found in the objection of respondent's counsel, it will be given consideration at the time the proceeding reaches the point of ultimate conclusion.

Therefore, the objection will be overruled and Exhibit 146 will be received.

(Exhibit 146, Witness Luttring, received in evidence.)

On page 64 of this Exhibit 146 "Total Gas Plant Accounts" are stated to be $14,519,788.71, per books as of December 31, 1939. This is exclusive of construction work in progress in the amount of $150,582.36.

These book figures for Gas Plant Account as of December 31, 1939, are in accord with the book figures as shown by Canadian's witness Lusk in Exhibits 67 and 183 supra. However, for reasons assigned in the written statement accompanying the exhibit and in connection with cross-examination, as hereinafter set forth, the amount of $4,-596,458.77 was removed from the plant accounts by Luttring and Teel as constituting improper items of cost of plant. These adjustments are eliminations by Luttring and Teel from the gas plant accounts, as shown by the company's books as of December 31, 1939, to arrive at original cost, and consist of the following:

1. The elimination of $121,786.50, representing the alleged excess paid by Canadian to Master Oil and Gas Company (hereinafter referred to as Master) for two leases and two gas wells, over and above the alleged cost of these leases and wells to Master (Entry 200).

2. The elimination of $151,591.23, representing, as stated in the exhibit, "payments for renewals and rentals on leases." (Entry 201.). (This elimination was not allowed by the Commission, and consequently the evidence relating thereto is not set forth in this printed record.)

3. The removal of $128,534.04, which was said to constitute a write-up of the properties at the time Jones and Associates sold their interest in certain properties to Mission Oil Company (hereinafter referred to as Mission), or the alleged excess cost which was shown on the books of the Amarillo Oil Company over and above the cost to Jones and Associates at the time Mission was given 50% of the stock of the Amarillo Oil Company for Mission's interest in this property (Entry 203).

4. The elimination of $439,229.54, claimed to be the profit from the sale of the Cliffside property to the United States Government. (Entries 204 to 210, inclusive.) (This elimination was not allowed by the Commission, and consequently the evidence relating thereto is not set forth in this printed record.)

5. The elimination of $3,120,496.25, representing the alleged excess of cost to Canadian over and above the cost to Amarillo Oil of certain leasehold rights, gas wells and properties (Entry 211).

6. The elimination of $80,952.45 from the gas plant account, and transferred to a plant account called "Gas Plant Held for Future Use," involving two wells thought by the witnesses not properly included in the gas plant account (Entry 225). (This elimination was not allowed by the Commission, and consequently the evidence relating thereto is not set forth in this printed record.)

7. The elimination of $555,867.62, Interest During Construction (Entries 246 to 249, inclusive).

8. The elimination of $1,176.34 from gas plant account and transferred to Other Property (Entries 232 and 243), involving, in the case of Entry 232, land not presently used in gasoline operations, and Entry 243, ~~farm~~ land acquired in connection with rights of way.

Various entries aggregating $3,175.20, and involving charges and credits ranging from an adjustment for well costs charged off to expense in 1923 by Amarillo Oil Company (Entry 229), to a re-allocation of overhead charges in connection with the purchase of the Clayton Lateral in 1933, resulting in an addition to the plant account in the amount above stated.

Commission witnesses, Carl F. Luttring and Lloyd G. Teel, testified as follows: (Vol. XXXVIII, Official Transcript, pp. 5145-5159.)

Q. Please state your name.
A. Carl E. Luttring.
Q. You're presently employed by the Federal Power Commission?
A. That's right.
Q. In what capacity?
A. As a Senior Examiner.
Q. What is your profession?
A. My profession is accounting.
Q. How long have you been employed by the Federal Power Commission in that capacity?
A. Since May 1st, 1939.
Q. Have you since the time of your employment with the Federal Power Commission had occasion to work on any accounting matters in connection with this present proceeding?
A. Yes, sir.
Q. When did you get the assignment?
A. I got that assignment on May 4th, 1939.
Q. You got the assignment on May 4th, 1939?
A. Yes, sir.
Q. Since that time, what portion of your time have you devoted to that assignment?
A. All but about four months.
Q. During that period of time while working on this

assignment, have you had occasion to examine the books and records of Canadian River Gas Company?

A. I have.

Q. In connection with such examination and in connection with this assignment, did you prepare an exhibit presenting the gas plant account and examiner's adjustment for Canadian River Gas Company?

A. Yes, sir, I have.

Q. Before I have you identify that, I want to know whether in connection with your work as an accountant, have you prepared a statement showing your qualifications?

A. Yes.

Q. And the work you have been performing?

A. Yes. Do you wish me to read that into the record?

Q. Yes, please read that into the record.

A. During the period from December 1, 1921 to November 30th, 1927, I was associated with Messrs. Haskins & Sells, Certified Public Accountants. The two latter years of this association were spent as a senior accountant on the examination of public utility holding and operating companies.

During the period from December 1, 1927 to August 15, 1935 I was Treasurer of Central States Edison Company, a holding company operating twelve public utility companies which rendered electric, gas and water service. All financial matters and records were under my supervision as well as devising the system by which the records were kept.

During the period from November 15th, 1935 to May 1st, 1939, the date of my association with the Federal Power Commission, I was asociated with Arthur Andersen & Company, Certified Public Accountants, as a senior accountant, and engaged in the examination of both public utility holding and operating companies and others.

Q. You stated that since what month in 1939 you have been engaged in the work on this assignment?

A. May 1939.

Q. And during the time that you did work on this assignment you had occasion to examine the books and records of the company at which of their offices?

A. At Colorado Springs, Colorado.

Q. Colorado Springs, Colorado?

A. Yes.

Q. Now, then, and in the preparation of this exhibit in connection with this assignment, what other books and records, if any, of the company did you have occasion to examine?

A. In the study of original costs it was necessary to examine the books and records of predecessor, or associated companies. Some of those records were located at New York City; Kansas City, Missouri; Independence, Kansas, and Amarillo, Texas.

Q. And you did, in fact, make an examination of those records at those places?

A. At the places I stated yes.

Q. In connection with the preparation of this exhibit?

A. Which is in connection with the work that is in this exhibit.

Mr. Lange: I will have the reporter mark this exhibit for identification.

The Trial Examiner: It will be marked for identification as Exhibit No. 146.

(Exhibit 146, Witness Luttring, marked for identification.)

By Mr. Lange:

Q. Mr. Luttring, I will ask you whether in connection with this work, and particularly in the preparation of this exhibit, any other member of the staff of the Federal Power Commission worked with you or prepared a part of the exhibit; if so, what part?

A. In addition to the work which I directly contributed to this exhibit there was work prepared and contributed by Lloyd G. Teel.

Q. Is he an accountant on the staff of the Federal Power Commission?

A. He is also an accountant on the staff of the Federal Power Commission.

Q. Did you in connection with the preparation of this exhibit also prepare a written statement which gives the substance of the main portions of the exhibit?

A. I have.

Q. Do you have that written statement here?

A. Yes.

Q. Will you please read it for the record?
A. Yes.

"This report sets forth the investment of Canadian River Gas Company in gas plant, as of December 31, 1939. By account classification it shows the value of that plant per the company's books, a series of adjustments made in journal entry form, and the gas plant investment after the application of the adjusting entries. It also shows components of cost of the several classes of plant.

"The adjusting entries forty-eight in number, are given on Pages 1 to 58, inclusive. They are of two kinds: those that reclassify plant by transfers of amounts from one plant account to another, which entries are denoted by the letter 'R' prefixed to the numeral, and those that involve contra accounts other than plant accounts. The purpose of the entries is to adjust plant accounts so that they will more nearly reflect the legitimate original cost of gas plant. The explanation given as a part of each entry states the reason and basis for each adjustment. Entries Nos. 200 to 219, inclusive, which relate to leaseholds and other production cost items, were prepared by Mr. Luttring * * *"

Q. That is yourself?
A. Yes.

"* * * the others were prepared by Mr. Teel.

"Following the adjusting entries, Pages 59, 60, and 61 reflect the suspensions which have been made for Commission's consideration. The suspensions consist of:

"1. Ford, Bacon & Davis, Inc. fees and related charges	$172,778.33
"2. Purchase commissions paid to Standard Oil Company of New Jersey	14,179.63
"Total	$186,957.96

"The reasons for these suspensions are explained on the above-numbered pages (59, 60 and 61) of the report.

"Next in order on Page 62 appears Schedule No. 1. This tabulation shows by plant accounts, grouped according to functions of the property they represent, the following:

the investment per books as of December 31, 1939, the total amount of Examiner's debit and credit adjustments, the adjusted investment accounts as of December 31, 1939, and a list of amounts included in the adjusted investment account which are Suspended for Commission's Consideration. These elements are explainable as follows:

"(a) The investment per book is, with one exception, grouped according to the company's classification. We have classified Field Measuring Stations as Other Field Facilities.

"(b) The Examiner's Adjustments are the total debits and credits for each plant account taken from a recapitulation of the forty-eight adjusting entries shown in Schedule No. 1-A; the difference between total credit adjustments of $5,131,036.24 and total debit adjustments of $4,708,587.14, or $422,449.10, is charged to Miscellaneous Income Deductions ($873,801.03) and credited to Surplus ($396,613.11) and to non-Gas Plant Accounts ($54,738.82) as set forth in Columns 13, 14 and 16, respectively, of Schedule No. 1-A.

"(c) The adjusted Plant Investment (Schedule No. 1, Column 7) is the amount, subject to the suspensions shown in Column 8, that is recommended to the Commission for acceptance as the original cost of the company's property.

"(d) The amount suspended for Commission's consideration, $186,957.96, is shown in Column 8, together with the distribution to the various plant accounts.

"Schedule No. 2, which supports Operated and Unoperated Acreage Leaseholds shown in Schedule No. 1, sets forth in summary fashion the book cost of all leaseholds, the 'Appreciation' set up for those leaseholds ($3,120,496.25) on the books of the company, and the Examiner's Adjustments. Among the leaseholds are leaseholds acquired from Amarillo Oil Company and its predecessors as part of a $5,000,000 transaction, in excess of their original cost. The amount of this 'Appreciation' representing no cost to or expenditure by Amarillo Oil Company or its predecessors, is $3,493,597.65, and by adjustment entry it has been transferred by the Examiner from the Leasehold and certain Income Accounts to the Gas Plant Adjustment Account. The adjustments to this account comprise the major part of the Examiner's adjustments; Leaseholds, Operated and Unoperated, have been reduced by adjustment, $4,253,482.13.

"Schedule Nos. 2-A and 2-B, which support Schedule No. 2, show for Operated and Unoperated Leaseholds, respectively, in dollars, by Lease Number, the balance in the account as of December 31, 1928, Additions, Transfers, Abandonments, and the balance in the account as of December 31, 1939.

"Schedules Nos. 2-C, 2-D, and 2-E show the manner in which the company computed accrued depletion and depreciation to December 31, 1927, for the purpose of adjusting the Reserves for Depletion and Depreciation. The effect of the computations on the Leasehold Account is set forth in Schedule No. 2. The last columns of Schedules Nos. 2-C and 2-D show by leases the makeup of the amount to which the Reserve for Depletion was adjusted (-$66,929.97) by the company (cf. Company adjustments, Sheet 2, Schedule No. 2), and similarly, Schedule No. 2-E shows the amount to which the Reserve for Depreciation was adjusted by the company (cf. Company Adjustments, Sheet 2, Schedule No. 2).

"Certain facts relative to the company's Reserves for Depletion and Depreciation need explanation. Canadian River Gas Company acquired most of its leaseholds from Amarillo Oil Company as of May 1, 1927. Nevertheless, Amarillo Oil Company continued to operate certain of the wells and leases purchased from them by Canadian River Gas Company until June 1, 1928. In setting up depletion and depreciation, Canadian River ignored the fact that accruals for those items had been made in 1928 by Amarillo Oil Company and set up in its own expenses $41,960.01 and $50,094.67 for Depletion and Depreciation, respectively. Its accounting for these items has been adjusted in Adjusting Entry No. 248.

"Schedule No. 2-F shows by lease number the operated and unoperated acreage under lease to Canadian River Gas Company and the holders of the oil rights of that acreage. Parcomis Oil and Gas Company has oil rights to 297,594 of the 324,997 acres held under leasehold by Canadian River Gas Company, and the oil rights to the remainder, with the exception of the oil rights to 11,842 acres, which Canadian River retains, are held by seven other companies.

"As Schedule No. 2 and its subschedules support with

details the company's investment in Leaseholds, so do Schedules Nos. 3 to 15, inclusive, and their subschedules support the company's investment in other classes of gas plant shown in Schedule No. 1. These supporting schedules show the investment costs classified by subaccounts, by items of property, such as by each well and line for Gas Wells and Field Lines, and by elements of cost, which, in most instances, are shown as materials, labor, and miscellaneous and overhead.

"Certain adjustments of the Investment in Gas Plant made by the Examiner particularly call for mention or explanation.

"Adjusting Entry No. 203, which transfers the cost of drilling certain wells from Operated Leases to Gas Well Investment, and also transfers the cost of Amarillo Oil Company's acquiring the net assets of Mission Oil Company in excess of original cost from Operated Leases to Gas Plant Adjustment Account, was prepared from information obtained by means of an examination of the books and records of Mission Oil Company and others at Kansas City, Missouri. Amarillo Oil Company and Mission Oil Company were subject to common ownership and each had an equal interest in the operation of certain wells and leases in the Amarillo gas fields as set forth in an agreement dated November 20, 1918. As of January 16, 1923, the interest of Mission Oil Company was acquired by Amarillo Oil Company in consideration for the issuance of fifty per cent of its capital stock to Mission.

"Adjusting Entries Nos. 204 to 210, inclusive, relate to the adjustment of the company's treatment of the sale to the United States Government of certain helium bearing acreage known as the Cliffside Structure. This series of entries may be combined into the following composite entry:

"Surplus	$300,539.22	
"Gas Plant Adjustment	187,904.20	
"To operated leases		$439,229.54
"Reserve for depreciation		10,992.50
"Reserve for depletion		38,221.38
	$488,443.42	$488,443.42

"By these entries Gas Plant Adjustment Account is debited with the excess of the price paid by the Canadian River Gas Company for the acreage sold to the United States Government over a portion of the cost of that acreage as shown on the books of the Amarillo Oil Company, an affiliate, and Operated Leases Account is credited with the recorded profit on the sale, $439,229.54.

"The Examiner's entries reduce the Leasehold Account by the amount of the recorded profit on the transaction, and the Surplus Account by so much of that profit as is reflected in it, and set up the profit made by the affiliated Amarillo Oil Company in selling the Cliffside Structure Leaseholds to Canadian River Gas Company in the Gas Plant Adjustment Account; the credits to the Reserves for Depreciation and Depletion restore to these reserves amounts representing investment in gas well equipment and cost of drilling erroneously charged against them in connection with the sale, in 1930.

"Adjusting Entry No. R-227 eliminates from Gas Well Investment $496,198.55 of estimated costs by transferring them to the Gas Department Adjustment Account. This amount had been reduced on the company's books by actual costs of $5,384.81 as shown on Adjusting Entry No. R-228. The net effect of these two entries, R-227 and R-228, is to clear the Gas Department Adjustment Account as recorded on the Company's books. The <u>actual</u> costs on these wells enter the Gas Well Investment Account by means of Adjusting Entries Nos. 202 and 203.

"Adjusting Entries Nos. R-233, R-234A, R-234B, R-235, R-237, R-238, 251 and 252, carry out recommendations of the Bureau of Engineering of the Federal Power Commission.

"Adjusting Entries Nos. 246, 247, 248 and 249 involve the revision of Interest during Construction, which has been adjusted downward, from $556,897.95 to $1,030.33, for the reason that the amount of Interest during Construction as developed by the company was predicated upon an incorrect construction cost base and period of construction, and did not contain an allowance as an offset against interest charges of the proper amount of revenues received during the period of construction.

"Except for initial construction in 1927 and 1928 the company capitalized no Interest during Construction and the Examiner, following the company's policy in this respect, has likewise made no allowance for Interest during Construction for plant constructed subsequent to the period of initial construction. Interest during Construction, as revised, consists of:

"(a) interest as computed in Schedule No. 13-B3, $460,-435.85, less (b) operating revenue from properties acquired from Amarillo Oil Company as of May 1, 1927, $214,552.27, and (c) interest computed on that part of the value of leaseholds acquired from Amarillo Oil Company as of May 1, 1927, that represents 'Appreciation,' $244,853.26.

"Schedules Nos. 13-B1 and 13-B2 present Interest during Construction per books and a comparison of the book figures and the Examiner's revised figures. In making the Interest during Construction computation the Examiner has used the same date for the start of construction as the company has, namely, May 1, 1927, but has used a different date for the end of the construction period, namely, July 1, 1928; the company has used October 1, 1928, as an ending date. The reason why the Examiner used July 1, 1928, as an ending date is that substantial deliveries of gas were made to the three principal customers of the company in June 1928, for the first time, and continued thereafter.

"In this connection, a notation on a Ford, Bacon & Davis voucher (G-20) is important: It reads: 'Capitalize deliveries June 1-18, inclusive, charging same to 226-9. Charge deliveries June 19-30, inclusive, to operations.' Initial deliveries were made to Colorado Fuel and Iron Company on June 19, to Pueblo Gas & Fuel Company on June 21, and to Public Service Company of Colorado on June 23.

"Schedule No. 16, which is supported by Schedules Nos. 16-A, 16-B, and 16-C, is an analysis of construction overheads included in plant accounts as of December 31, 1939, per books. Schedule No. 16-D shows the amount of these overheads, which aggregate $393,940.50, that was charged to each plant account."

Q. Mr. Luttring, I previously asked you in connection with the preparation of this exhibit as to the part that Mr.

Lloyd G. Teel, accountant, prepared. I will now ask you to point out briefly that portion of the exhibit prepared by you as distinguished from that portion prepared by him, all of which is reflected in the contents of the exhibit following the title page.

A. On the first page of contents the Examiner's Entries 200 to 219—

Mr. Keffer: 219?

The Witness: 219. They are shown on Pages 1 to 23.

By Mr. Lange:

Q. Both inclusive?

A. Both inclusive.

—were prepared by me and are in this exhibit. On Page 2 of the contents, Schedule No. 2 to 2-F, inclusive, shown on Pages 68 to 78, inclusive, in this exhibit, they were prepared by me. The rest of the entries and exhibits or schedules were prepared by Lloyd G. Teel.

Commission Witness, Lloyd G. Teel, testified as follows: (Vol. XXXVIII, Official Transcript, pp. 5160-5164.)

By Mr. Lange:

Q. Please state your name.
A. Lloyd G. Teel.
Q. You reside here in Denver?
A I do.
Q. By whom are you presently employed?
A. The Federal Power Commission.
Q. What is your profession?
A. Accountant
Q. How long have you been employed by the Federal Power Commission in that capacity?
A. Since January 2nd, 1936.
Q. January 2nd, 1936?
A. Yes.
Q. Have you had occasion during the course of that employment to be assigned any work of accounting character having to do with this present investigation?
A. I have.
Q. When did you first get that assignment?

A. October 5, 1939.

Q. October 5, 1939?

A. Yes.

Q. Since that time what portion of your working time have you devoted to that assignment?

A. Oh, I think, I should say practically all of it with the possible exception of two or three weeks spent doing office work.

Q. Practically all of that period of time up to the present with that exception?

A. Yes.

Q. In connection with your work on that assignment, you have heard the testimony of Mr. Carl E. Luttring who just preceded you in this record?

A. I have.

Q. With reference to this exhibit, I will ask you to please state for the record your qualifications in connection with your work as an accountant.

A. After I graduated from high school at Sapulpa, Oklahoma in 1923, I took the higher accountancy course offered by LaSalle Extension University, which I completed. I entered the employ of the Sapulpa State Bank approximately two years after graduating from high school and worked there for four years, the last two of which were devoted largely to auditing and the investigation of other banks then controlled by this bank.

I left the bank in February 1929 to work for the Tide Water Associated Oil Company as an accounting clerk in the Springfield, Missouri office. I stayed there until January, 1931, having been Acting Chief Clerk of the division for the ten months ended December 31, 1930. At that time I went with the Cosden Oil Company as its Western Regional Office Manager, having charge of all sales accounting and certain property records, supervising a staff of six to ten employes. I worked for this company until October 1933, acting as Operating Trustee for certain of its properties in St. Louis, Missouri from June 1932 until that time.

During the interim from October 1933 to February 1934 I worked for Ernst & Ernst, Certified Public Accountants, at St. Louis, Missouri, principally on oil company audits.

In February 1934, I was employed by the Petroleum Ad-

ministrative Board at Washington, D. C., as Marketing Expert, being assigned to the study of marketing costs and other related subjects. During the period ended December 1935 I prepared several cost reports for the Board and completed a report on retail marketing costs of gasoline which was later published by the Board. During this period I directed a staff of three to five men in preparation of the various data referred to above.

Since January 1936 I have been employed by the Federal Power Commission as Examiner of Accounts, having been engaged chiefly in the investigation of original cost and investment in licensed hydroelectric projects and utility company properties.

Q. Now, Mr. Teel, you heard the testimony of Mr. Luttring with reference to the preparation of Exhibit No. 146 and with reference to the part of the exhibit that he prepared and the part of the exhibit you prepared; also, his statement referring to the table of contents as to that division. Will you please turn to the table of contents and indicate there the parts of the exhibit that you prepared?

A. On the first page of the table of contents under Examiner's Entries, I prepared Entries 225 to 252, inclusive, and the suspensions for Commission's consideration. I prepared also Schedule 1 and 1-A which are listed on the same page, and the schedules on the next page beginning with No. 3 and continuing through that page and all of the next page.

That completes the schedules which I prepared.

Q. And where do those schedules end?

A. Those schedules end on Page 3 of the contents.

Q. With what schedule number?

A. With Schedule No. 16-D.

Q. So it is all inclusive of those?

A. Yes.

Q. Now, in the preparation of your part of this exhibit, Mr. Teel, what occasion did you have to examine the company's books and records and at what places did you make such examination?

A. Well, the occasion for examining the company's records was in response to an assignment from my chief in the Denver office, and I examined such records of this company at its office in Colorado Springs.

Q. In Colorado Springs?

A. Yes.

Q. Colorado?

A. Colorado Springs, Colorado.

Exhibit 146 is in part as follows:

ebit G-124 Exhibit No. 146

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

	Debit	Credit
No. 200		
s Plant Adjustment (Account 107) - 1928	$121,786.50	
Operated Leases - 1928		$121,786.50

To remove from operated lease costs and charge gas plant adjustment ith the amount by which such costs exceed the original legitimate cost f leases purchased from Master Oil and Gas Company, which company was ntrolled by Prairie Oil and Gas Company. The amount of cost, as deermined from the records of Master Oil and Gas Company to be in excess f original legitimate cost and the leases to which applicable, was comted as follows:

xpenditures of Master Oil and Gas Company nsidered as original legitimate costs of eases and wells sold to Canadian River Gas mpany in November 1928:

ease costs:		
Bonus paid R. B. Masterson and J. T. Sneed, Jr. on lease dated June 1, 1926 covering land in Moore County, Texas	$ 5,247.20	
Rental of $1.00 per acre paid on 5,084.20 acres for one year from June 1, 1927	5,084.20	
Rental of $1.00 per acre paid on 5,084.20 acres for one year from June 1, 1928	5,084.20	
Rental of $1.00 per acre paid on 320 acres for one year from March 18, 1927	320.00	
Rental of $1.00 per acre paid on 320 acres for one year from March 18, 1928	320.00	
Total lease costs		$ 16,055.60
ell costs:		
Inventory value as at March 12, 1927 of Masterson M-1 well drilled about 1920 and shut in	$53,182.91	
Subsequent expenditures	460.69	
Cost of Sneed B-1 well drilled by Prairie Oil and Gas Company and completed on or about October 31, 1927. This well was drilled in accordance with agreement of July 1926 which provided that Prairie Oil and Gas Company be permitted to own 51% of the outstanding capital stock	41,401.81	
Subsequent expenditures	1,258.54	
Total well costs		96,303.95

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2659-2661

Exhibit No. 146

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

2

No. 200 (Cont'd)

Total original legitimate expenditures		$112,359.55
Amount paid by Canadian River Gas Company in November 1928		235,054.20
Excess of amount paid over original legitimate expenditures		$122,694.65
Amount of excess per acre, based on 5,404.2 acres		$22.70357
Distribution of excess:		
Lease 86-M Masterson, 2,587.2 acres	$ 58,738.68	
Lease 86-B Sneed, 2,777.0 acres	63,047.82	
Total	$121,786.50	
Lease 85 Sneed, 40 acres - Abandoned in 1936	908.15	$122,694.65

Master Oil and Gas Company was incorporated May 4, 1921 but remained inactive until April 1927.

About 1920 a gas well was drilled on land owned by R. B. Masterson and shut in due to lack of market. The funds for the development of this well were provided through a beneficial trust. It appears that Master Oil and Gas Company was formed for the purpose of acquiring the operations and business of the beneficial trust.

About 1925 Prairie Oil and Gas Company, through purchase of property from Shamrock Oil Company, acquired 1,500 shares, par value $50.00 per share, of capital stock of Master Oil and Gas Company, representing 25% of the capital stock authorized.

In July 1926 Prairie Oil and Gas Company proposed to Master Oil and Gas Company and its stockholders the following:

(a) Furnish funds for the benefit of Master Oil and Gas Company for the payment of delinquent franchise taxes due the State of Texas for the years ended April 30 from 1923 to 1927.

(b) R. B. Masterson and J. T. Sneed to execute and deliver, in form acceptable to Prairie Oil and Gas Company, leases on land in Potter County, Texas, for a term of 10 years from June 1, 1926.

(c) Well to be drilled on land leased from J. T. Sneed free of cost to Master Oil and Gas Company and its stockholders.

(d) In consideration of the proposition, Master Oil and Gas Company and its stockholders were to transfer to Prairie Oil and Gas Company a sufficient amount of stock of Master Oil and Gas Company which with the (25) percent then owned would vest ownership and control of (51) percent of the stock of Master Oil and Gas Company in Prairie Oil and Gas Company.

Master Oil and Gas Company was liquidated subsequent to sale of its entire property to Canadian River Gas Company in 1928. Of the liquidation distribution made, 51% was paid to Prairie Oil and Gas Company.

In addition to the control exercised by Prairie Oil and Gas Company through the ownership of 51% of the capital stock, Mr. N. K. Moody held positions in the companies interested in this transaction, as follows:

Master Oil and Gas Company	Director
Amarillo Oil Company	President and Director
Canadian River Gas Company	Director
Southwestern Development Company	Director

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2663-2665

Exhibit No. 146

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

		Debit	Credit
No. 201			
Surplus - Exploration and Development Costs - Delay Rentals		$151,991.23	
Year 1929	$ 1,280.00		
" 1930	-		
" 1931	47,496.53		
" 1932	28,601.00		
" 1933	52,027.45		
" 1934	2,040.50		
" 1935	2.50		
" 1936	-		
" 1937	3,200.00		
" 1938	10,729.00		
" 1939	6,614.25		
	$151,991.23		
Operated Leases			$100,559.03
Unoperated Leases			51,032.20
Surplus - Exploration and Development Costs - Abandoned Leases - 1939			400.00

To charge delay rentals account with amounts included in the plant account at December 31, 1939 representing payments for renewals and rentals on leases made in years as follows:

Year Paid		Lease Number	Operated Leases	Unoperated Leases	Abandoned Leases
1929		63		$ 1,280.00	[illegible] adjustment (entry 5361
1931	(Transferred from unoperated, 1938)	58-B	$ 39,431.71		
"		108-D	1,536.82		
"		6-A	6,528.00		
1932		2		7,680.00	
"		19		2,125.00	
"	(Transferred from unoperated, 1937)	68	5,300.00		
"		81-A	6,750.00		
"		90		6,746.00	
1933		137		800.00	
"	(Abandoned in 1939)	138			$400.00
"		70		4,079.00	
"		30-A	9,130.00		
"		125	31,880.00		
"		84		5,738.45	
1934		63		2,040.50	
1935		6-A	2.50		
1937		73		3,200.00	
1938		19		2,125.00	
"		47		2,125.00	
"		70		4,079.00	
"		80		2,400.00	
1939		72		3,194.25	
"		84		50.00	
"		137		3,370.00	
Totals			$100,559.03	$51,032.20	$400.00

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2667-2669

Exhibit No. 146

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

6

	Debit	Credit
No. R-202		
Gas Well Investment - 1928	$54,508.94	
Operated Leases - 1928		$54,508.94

To remove from the cost of operated leases which were acquired by Amarillo Oil Company from Mountain States Gas Company, the amount of the investment in gas wells as shown by an inventory as of April 30, 1924. The costs so removed are charged to gas well investment to offset credits made therein to depreciation and adjustment account as of April 30, 1924. The wells to which the costs are applicable are as follows:

Lease Number Mountain States Gas Co.	Lease Number Canadian River Gas Co.	Well Number	Lessor	Amount
1071	58	H-1	R. B. Masterson	$20,974.69
1077	32	I-1	do.	16,948.99
1088	43	F-1	do.	7,846.25
1089	58	G-2	do.	8,739.01
			Total	$54,508.94

	Debit	Credit
No. 203		
Gas Well Investment	$289,147.77	
Gas Plant Adjustment (Account 107)	128,534.04	
Operated Leases		$417,681.81

To charge gas well investment with amount of expenditures made by Mission Oil Company, et al. and/or Amarillo Oil Company in developing the wells shown hereinafter, also to charge gas plant adjustment with the amount by which the net assets acquired by Amarillo Oil Company from Mission Oil Company exceeds the original cost thereof. The amounts represented by these charges are recorded in operated lease costs and are being removed therefrom.

Lease	Lease No.	Well No.	Development Costs: Labor, Teaming & Freight	Development Costs: Drilling	Development Costs: Total	Gas Plant Adjustment	Total Credited to Operated Leases
Bivins	30	C-1	$ 28,731.14	$ 17,621.59	$ 46,352.73	$ 17,043.94	$ 63,396.67
"	30	D-3	27,507.85	16,868.18	44,376.03	52,958.74	97,334.77
Masterson	58	B-5	24,868.13	15,244.38	40,112.51	91,549.82	131,662.33
"	58	C-1	9,500.00	20,000.00	29,500.00)		
"	58	C-3	46,565.37	28,548.90	75,114.27)	(31,665.91)	72,948.36
"	58	D-4	17,222.59	10,557.96	27,780.55	13,431.41	41,211.96
"	58	E-2	16,063.68	9,848.00	25,911.68	(14,783.96)	11,127.72
Totals			$170,458.76	$118,689.01	$289,147.77	$128,534.04	$417,681.81

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Exhibit No. 146

8

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

No. 203 (Cont'd)

	Balance Sheet - January 16, 1923 Total	Amarillo Oil Company	Mission Oil Company
Assets			
Current assets	$ 8,953.25	$ 6,818.00	$ 2,135.25
Fixed capital:			
Operated leases:			
Gas well equipment	79,780.88	39,890.45	39,890.43
Leaseholds - book cost	8,488.47	4,244.23	4,244.24
Leaseholds - writeup	421,608.61		421,608.61
Unoperated leases	1,803.00	901.50	901.50
Other assets - warehouse supplies, automobiles and furniture	23,762.97	12,185.51	11,577.46
Total	$544,397.18	$ 64,039.69	$480,357.49
Liabilities			
Current liabilities	$ 76,270.91	$ 44,104.42	$ 32,166.49
Reserves:			
Depreciation	20,141.60	20,141.60	
Depletion	106.20	106.20	
Total	$ 96,518.71	$ 64,352.22	$ 32,166.49
Net assets	$447,878.47	$ (312.53)	$448,191.00
Represented by:			
Common capital stock	$ 20,000.00	$ 10,000.00	$ 10,000.00
Surplus:			
Donated	22,700.00	22,700.00	
Capital - excess of net assets acquired	438,191.00		438,191.00
Earned surplus (deficit)	(33,012.53)	(33,012.53)	
Total	$447,878.47	$ (312.53)	$448,191.00

Leaseholds - writeup, as above	$421,608.61
Company adjustment in July 1923	3,926.80
Adjusted leasehold writeup, January 16, 1923	$417,681.81

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

17

	Debit	Credit
No. 211		
Gas Plant Adjustment (Account 107)	$3,120,496.25	
Operated Leases		$3,094,429.85
Unoperated Leases		26,066.40

To charge Gas Plant Adjustment account with the amount by which the costs of the following operated and unoperated leases, as recorded on the books, exceed the original cost of such leases:

Lease No.	Lease	Operated Leases	Unoperated Leases
2	J. T. Sneed, Jr.		$ 5,120.00
6-A	J. T. Sneed, Jr.	$ 92,245.00	
9-A	D. P. Seay	7,620.00	
19	M. E. Miller		2,656.25
21-B	Terry Thompson	83,640.00	
23-A	L. H. Crawford	19,215.00	
29-A	E. S. Poling	2,000.00	
30-A	Lee Bivins	1,819,335.36	
31-A	R. B. Masterson	348,450.00	
32-I	R. B. Masterson	8,000.00	
43-F	R. B. Masterson	27,857.87	
47	O. H. Cooper		2,656.25
57-A	J. C. Warrick	12,050.24	
58-B	R. B. Masterson	507,011.07	
60-A	R. O. Allison	1,000.00	
61-A	Dave McBride	6,000.00	
63	Nettie L. Baker		6,875.00
64-B	Elizabeth Crawford	21,130.00	
65-J	R. B. Masterson	90,730.00	
67-A	Georgie E. Thompson	42,945.31	
68-A	Thomas M. Coughlan	5,200.00	
70	J. M. Crawford		6,850.00
137	S. P. Johnson		1,908.90
	Total	$3,094,429.85	$26,066.40

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Exhibit No. 146

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number		Debit	Credit
	No. 225		
100-4	Gas Plant Held for Future Use	$ 80,952.45	
211-212	Gas Well Investment		$ 80,952.45

To transfer to Gas Plant Held for Future Use the cost of 2 gas wells, Bivins A-22 and Masterson B-5, and eliminate such costs from Gas Well Investment Accounts 211-212. The details are as follows:

Well No. and Lease No.	Book Cost	Adjustments No. 203	Adjustments No. R-227	Revised Costs
Bivins A-22 Lease 30	$37,036.08			$37,036.08
Masterson B-5 Lease 58	53,803.86	$40,112.51	($50,000.00)	43,916.37
Totals	$90,839.94	$40,112.51	($50,000.00)	$80,952.45

The Respondent's records show that neither well was connected to the gathering system at December 31, 1939, nor is either well producing as of this date, June 18, 1940. The records do not show any production ever recorded for the Bivins A-22 well which is a sour gas well. Masterson B-5 well, completed in 1920, was connected at one time with Field Line F-806. This line was abandoned in 1934, the meter on it having been pulled in 1929, subsequent to which time no production has been recorded. The attached letter, which is in reply to an inquiry by Examiner Schutte (F.P.C.), outlines the company's position in regard to both wells.

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number			Debit	Credit
	No. R-226			
211-212	Gas Well Investment		$ 81,921.21	
	Drilling Costs	$67,400.00		
	Labor, Teaming and Freight	14,521.21		
211-212	Gas Well Investment Depreciation and Adjustment	($81,921.21)		$ 81,921.21

To transfer from D. & A. (Purchased Wells) certain costs reclassified as Drilling and Labor, Teaming and Freight as follows:

Well No.	Drilling	Labor Teaming and Freight	Total
Bivins A-2	$28,100.00	$ 5,656.89	$33,756.89
" B-1	18,400.00	6,143.57	24,543.57
Masterson G-2	20,900.00	2,720.75	23,620.75
Debits	$67,400.00	$14,521.21	
Credit to D. & A.			$81,921.21

Account Number		Debit	Credit
	No. R-227		
	Gas Department Adjustment Account - 1928	$496,198.55	
211	Gas Well Investment - 1928		$496,198.55

To reverse estimated amounts of development costs set up by Amarillo Oil Company as of September 30, 1925 and credited to Gas Department Adjustment account. The wells to which these costs relate are as follows:

		Development Costs		
Well No.	Lease	Labor Teaming and Freight	Drilling	Total
C-1	Lee Bivins	$ 5,000.00	$ 45,000.00	$ 50,000.00
C-4	Lee Bivins	5,871.46	24,937.58	30,809.04
D-3	Lee Bivins	4,166.50	45,000.00	49,166.50
B-5	R. B. Masterson	5,000.00	45,000.00	50,000.00
C-1	R. B. Masterson	5,000.00	45,000.00	50,000.00
C-3	R. B. Masterson	5,113.45	45,109.56	50,223.01
D-4	R. B. Masterson	5,000.00	45,000.00	50,000.00
E-2	R. B. Masterson	5,000.00	45,000.00	50,000.00
F-1	R. B. Masterson	3,000.00	37,000.00	40,000.00
H-1	R. B. Masterson	3,000.00	35,000.00	38,000.00
I-1	R. B. Masterson	3,000.00	35,000.00	38,000.00
	Total	$49,151.41	$447,047.14	$496,198.55

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number		Debit	Credit
	No. R-228		
211	Gas Well Investment - 1928	$5,384.81	
	Gas Department Adjustment Account - 1928		$5,384.81

To remove from Gas Department Adjustment account charges representing development costs (labor, Teaming and Freight) which should be reflected as additions to the following wells:

Well No.	Lease	Amount
A-3	Lee Bivins	$1,709.98
B-2	Lee Bivins	22.67
A-1	R. B. Masterson	458.48
A-1	J. C. Warrick	3,193.68
	Total	$5,384.81

No. 229

211	Gas Well Investment	$8,809.04	
107	Gas Plant Adjustment		$8,809.04

To set up costs in developing Bivins C-4 well which were charged by Amarillo Oil Company to its income account in October 1923.

Drilling costs	$6,937.58
Labor, teaming and freight	1,871.46
Total	$8,809.04

No. 232

110	Other Physical Property (1935)	$ 615.00	
900	Gasoline Investment Land (1935)		$ 615.00

To transfer land costs from Gasoline Investment Land (Account 900) and charge it to Other Physical Property. This amount represents the cost of 6.15 acres of land at Amarillo located in Section 224, Block 2, A.B.& M. survey, Potter County, Texas as per Memo Voucher C-26 of March 1928. The land was used as a loading rack site until 1935. Voucher M-19 of 1935 shows the retirement of the loading rack. The land is now rented to Amarillo Oil Company for a regulator site at $10.00 per annum.

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

ccount umber			Debit	Credit
	No. E-237			
224	Compressor Station Equipment		$ 930.00	
	.18 Other Misc. Equipment	$930.00		
904	Gasoline Plant Equipment			$ 697.50
	.6 Tanks	($697.50)		
	Reserve for Depreciation (Acct. 224-18)			232.50

To reverse transfer made on Vo. E-19 (20) 934 which transferred a tank 8'x30'x3/8"x5/16" sed for lubricating oil storage from Account 24-18, Compressor Station Equipment to Gasoline lant Equipment - Tanks. The book entry was reated as a retirement and was effected by epreciation accounting, although it was not aken out of service and in reality was only book transfer. Further reason for this djustment is detailed in the attached memo upplied by the Bureau of Engineering.

"MEMORANDUM

"Colorado Springs, Colorado
July 2, 1940

"Subject: Canadian River Gas Company
Recommended Adjustments in Plant Accounts

"Our inspection of Bivins compressing station and gasoline plant in September 1939 showed that the 8' x 30' steel tank charged to the gasoline plant, Account 904-6, Tanks, is used at the compressing station for storage of lubricating oil. Therefore, it is recommended that the recorded cost of this tank, $930.00 be transferred to the compressing station, Account 224-18, Other Miscellaneous Equipment.

"Our examination of the company's books indicates that the tank was originally installed in 1928 and charged to Account 224-18, but that in 1934 the recorded cost was transferred on Voucher E-19-20 to Account 904-6. Our recommendation is to reverse this transfer.

/s/ Lee M. Hill
Lee M. Hill
Engineer"

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number		Debit	Credit
	No. 242		
	Surplus (1931)	$ 690.42	
226	Transmission Line Equipment		$ 690.42

To eliminate from Account 226 the recorded cost of 17'10" of 22" x 3/8" pipe charged to plant account on Voucher A-339, 1931. This same pipe in the amount of $690.50 was charged to Account 226 on Voucher M-415, 1930 as the result of the replacement of a like quantity of pipe. It was used in a railroad crossing on the Santa Fe Railroad near Bivins, under Work Order No. 79, and was duplicated in the above charge which was made direct to the property account and not cleared through a work order.

Account Number		Debit	Credit
	No. 243		
110	Other Physical Property	$ 561.34	
218-D	Transmission System Land (Right of Way)		$ 561.34

To transfer the cost of the R. E. Stamper farm in Dallam County, Texas (less estimated right-of-way cost) from Account 218-D, Transmission System Land, to Other Physical Property. This farm, comprising 20.0 acres more or less, was purchased in fee for $500.00 and other costs were recorded as $79.34. Rights of way on adjoining property were purchased for approximately 50¢ per rod. The estimate of the Bureau of Engineering (F.P.C.) based on company maps and records is that approximately 35.5 rods of right of way were required to cross this tract of land. Therefore, the amount proposed for transfer to Other Physical Property is developed thus:

Recorded cost of Land	$579.34
Less 36 rods @ 50¢	18.00
Amount transferred	$561.34

Docket G-124

Exhibit No. 148

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number			Debit	Credit
	No. R-244			
220-D	Transmission Line Rights of Way		$ 4,149.65	
	Main Line	$4,101.50		
	Clayton Lateral	13.15		
	Texline Lateral	35.00		
226-D	Transmission Line Equipment			$ 4,149.65
	Damages - Main Line	($4,101.50)		
	Clayton Lateral	(13.15)		
	Texline Lateral	(35.00)		

To transfer Damages from Equipment account to Rights of Way. Examination of a substantial amount of these charges indicated that these apply to crop damages and other similar items which are properly chargeable to land and land rights.

Account Number		Debit	Credit
	No. 245		
	Surplus - Miscellaneous Income Deductions (1928)	$ 235.00	
255	Telephone System Rights of Way		$ 235.00

To correct error March 1928 (CR-23) and September 1929 (J-302) wherein accounts of Colorado Interstate Gas Company were credited with $250.00 and debited with $15.00 respectively. Both these entries were applicable to Canadian River Gas Company accounts. For details refer to Adjusting Journal Entry No. 203 of the Colorado Interstate Gas Company report.

Account Number		Debit	Credit
	No. 246		
107	Gas Plant Adjustment	$556,897.95	
266	Interest during Construction		$556,897.95

To clear Interest Account preparatory to setting up revised Interest as computed by Examiner of Accounts, Federal Power Commission.

Account Number		Debit	Credit
	No. 247		
266	Interest during Construction	$460,435.86	
107	Gas Plant Adjustment		$460,435.86

To set up Interest during Construction as revised by Examiner of Accounts, Federal Power Commission.

Docket G-124

Exhibit No. 146

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ENTRIES TO ADJUST
INTEREST DURING CONSTRUCTION

Account Number		Debit	Credit
	No. 248		
	Surplus - Miscellaneous Income Deductions (1928)	$ 81,250.00	
107	Gas Plant Adjustment Account (1928)	133,302.27	
	Gas Plant - Interest during Construction (1928)		$214,552.27

To credit Gas Plant - Interest during Construction with the income for the period from May 1, 1927 to May 31, 1928 which is shown by the records of Amarillo Oil Company as being earned during that period on the investment which Canadian River Gas Company acquired as of May 1, 1927 from Amarillo Oil Company and recorded on its books as of June 1, 1928.

Canadian River Gas Company recorded by Voucher J-387 in September 1928 an amount of $81,250.00 as representing income earned prior to June 1, 1928 on the properties acquired from Amarillo Oil Company and which amount has been used as a part of the gas rate to Colorado Interstate Gas Company. The entry refers to that part of Section 6 of agreement dated January 3, 1928, covering the sale of gas by Canadian River Gas Company to Amarillo Oil Company, which stipulates that the cost of gas shall include one-eighth (1/8) of the interest accruing on any indenture of first mortgage and deed of collateral trust or bonds.

Applying one-eighth (1/8), as provided in Section 6 of agreement, to bonds in the principal amount of $10,000,000.00, bearing interest at the rate of 6% per annum, resulted in the amount of $81,250.00 for the period May 1, 1927 to May 31, 1928 or at the rate of $6,250.00 per month.

Docket G-[illegible]

No. [illegible]

AMARILLO OIL COMPANY

STATEMENT OF NET INCOME FOR THE PERIOD MAY 1, 1927 TO MAY 31, 1928
SHOWING THE NET INCOME APPLICABLE TO CANADIAN RIVER GAS COMPANY

Description (1)	Per Books: Jan. 1 to May 31, 1928 (2)	Per Books: Eight Months Ended Dec. 31, 1927 (3)	Per Books: Thirteen Months Ended May 31, 1928 (4)	Applicable to Amarillo Oil Co. (5)	Applicable to Canadian River Gas Company: Amount (6)	Adjustments: Debit (7)	Adjustments: Credit (8)	Adjusted (9)
Operating Revenues								
Oil sales	$ 1,894.20	$ 5,085.14	$ 6,979.34	$ 6,979.34				
Gas sales - royalties deducted	193,471.57	284,760.54	478,232.11		$478,232.11	(4) $53,825.22		$424,406.89
Gasoline sales - royalties deducted	6,086.15	8,850.45	14,936.60		14,936.60			14,936.60
Miscellaneous	393.18	375.00	768.18	768.18				
Total Operating Revenues	$201,845.10	$299,071.13	$500,916.73	$ 7,747.52	$493,168.71	$53,825.22		$439,343.49
Operating Revenue Deductions								
Well expenses - Oil Department :	$ 1,564.84	$ 3,813.29	$ 5,378.13	$ 5,378.13				
Pipe line expenses	3,480.58	6,138.30	9,618.88	9,618.88				
Gas well expenses	1,580.52	2,456.13	4,036.65		$ 4,036.65			$ 4,036.65
Administrative and general expenses	17,622.67	15,531.96	33,154.63		33,154.63			33,154.63
Motor truck expenses	4,225.24	6,102.49	10,327.73		10,327.73			10,327.73
Motor truck earnings	(10,737.64)	(15,131.41)	(25,869.05)		(25,869.05)			(25,869.05)
Warehouse expenses	2,519.58	4,594.43	7,114.01		7,114.01			7,114.01
Warehouse earnings	(36.15)	(5,966.19)	(6,002.34)		(6,002.34)			(6,002.34)
Depletion - Oil Department	705.94	1,456.00	2,161.94	2,161.94				
Depletion - Gas Department	21,167.30	31,045.90	52,213.20		52,213.20		(1) 34,468.62	17,744.58
Depreciation - Oil Department	3,595.11	5,646.49	9,241.60	9,241.60				
Depreciation - Gas Department	19,921.57	32,903.06	52,824.63		52,824.63		(2) 33,730.25	19,094.38
Depreciation - Miscellaneous	3,416.61	6,949.28	10,365.89		10,365.89			10,365.89
Loss on auto equipment sold	1,327.69	68.58	1,396.27		1,396.27			1,396.27
State of Texas - suit		2,500.00	2,500.00	2,500.00				
Taxes (Other than income)	4,907.20	7,426.96	12,334.16		12,334.16		(3) 3,200.00	9,134.16
Total Operating Deductions	$ 75,261.66	$105,535.27	$180,796.93	$28,900.55	$151,895.78		$71,398.87	$ 80,496.91
Delay Rentals	$ 58,089.35	91,509.46	149,598.81		149,598.81			149,598.81
Total Deductions	$133,350.41	$197,044.73	$330,395.14	$28,900.55	$301,494.59		$71,398.87	$230,095.72
Net Utility Income	$ 68,494.69	$102,026.40	$170,521.09	($21,153.03)	$191,674.12	$53,825.22	$71,398.87	$209,247.77
Other Income								
Water line earnings	$ 4,277.68	$ 3,025.60	$ 7,303.28	$ 7,303.28				
Water line expenses	(1,923.61)	(2,917.30)	(4,840.91)	(4,840.91)				
Discount on purchases	4,427.05	877.45	5,304.50		$ 5,304.50			$ 5,304.50
Interest received from associated companies	26,137.46	1,048.40	27,185.86	27,185.86				
Total Other Income	$ 32,918.57	$ 2,034.15	$ 34,952.72	$29,648.22	5,304.50			$ 5,304.50

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Exhibit No. 46

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No. 248 (Cont'd)

AMARILLO OIL COMPANY
STATEMENT OF NET INCOME FOR THE PERIOD MAY 1, 1927 TO MAY 31, 1928
SHOWING THE NET INCOME APPLICABLE TO CANADIAN RIVER GAS COMPANY

Description	Per Books			Applicable to Amarillo Oil Co.	Applicable to Canadian River Gas Company			
	Jan. 1 to May 31, 1928	Eight Months Ended Dec. 31, 1927	Thirteen Months Ended May 31, 1928		Amount	Adjustments Debit	Adjustments Credit	Adjusted
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Gross Income	$101,413.26	$104,060.55	$205,473.81	$ 8,495.19	$196,978.62	$53,825.22	$71,398.87	$214,552.27
Income Deductions								
Interest on bonds	$ 1,895.85	$ 15,166.66	$ 17,062.51	$17,062.51				
Interest and exchange	2,027.77		2,027.77	2,027.77				
Amortization of bond discount	1,848.64	3,152.00	5,000.64	5,000.64				
Premium on bonds retired	12,190.08		12,190.08	12,190.08				
Interest on current debt		35,301.60	35,301.60	35,301.60				
Total	$ 17,962.34	$ 53,620.26	$ 71,582.60	$71,582.60				
Net Income	$ 83,450.92	$ 50,440.29	$133,891.21	($63,087.41)	$196,978.62	$53,825.22	$71,398.87	$214,552.27

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AMARILLO OIL COMPANY
JOURNAL ENTRIES ADJUSTING INCOME
FOR PERIOD MAY 1, 1927 TO MAY 31, 1928

			Debit	Credit
(1)				
Reserve for Depletion			$ 34,468.62	
Depletion Expense				$ 34,468.62

To adjust depletion expense so that provi-
ion applicable to income of Canadian River
s Company covers period May 1 to December 31,
27. Canadian River Gas Company took up
pletion for entire year of 1928.

limination of 1928 provision account taken up by Canadian River Gas Company		$21,167.30
ar 1927 lease cost depletion	$22,044.45	
ar 1927 development cost depletion	4,572.44	
Total	$26,616.89	
rtion for May to Dec. (eight months) 2/3	17,744.58	
r Books	31,045.90	13,301.32
		$34,468.62

(2)

Reserve for Depreciation	$ 33,730.25	
Depreciation Expense		$ 33,730.25

To adjust depreciation expense so that
rovision applicable to Canadian River Gas
mpany covers period May 1 to December 31,
927. Canadian River Gas Company took up
epreciation for entire year of 1928.

limination of 1928 provision account taken up by Canadian River Gas Company		$ 19,921.57
ear 1927 depreciation based on basis accepted by Revenue Agent	$28,641.58	
ortion applicable to May to Dec. (eight months) 2/3	19,094.38	
Per Books	32,903.06	13,808.68
Total		$ 33,730.25

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ibit G-124 | No. 248 (Cont'd) | Exhibit No. 146

AMARILLO OIL COMPANY
JOURNAL ENTRIES ADJUSTING INCOME
FOR PERIOD MAY 1, 1927 TO MAY 31, 1928

	Debit	Credit
(3)		
Tax Expense - Amarillo Oil Company	$ 3,200.00	
Tax Expense - Canadian River Gas Company		$ 3,200.00

To credit income applicable to Canadian ver Gas Company with taxes applicable to rillo Oil Company remaining operations.

The taxes paid for the year 1929 by rillo Oil Company amounted to $3,287.51

	Debit	Credit
(4)		
Gas Sales	$ 53,825.22	
Revenue applicable to Investment of Amarillo Oil Company in Pipe Line		$ 53,825.22

Expenses	
Pipe line expenses	$ 9,618.88
Depreciation	
8 mos. 1927, 2/3 x $19,280.20	12,853.46
5 mos. 1928, 5/12 x 19,990.05	8,329.20
6% on average investment of $383,728.00	23,023.68
	$53,825.22

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Exhibit No. 146

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ENTRIES TO ADJUST
INTEREST DURING CONSTRUCTION

Account Number		Debit	Credit
	No. 249		
107	Gas Plant Adjustment	$244,853.26	
266	Interest during Construction		$244,853.26

To eliminate from Interest during Construction the interest capitalized on leasehold appreciation contained in the original $5,000,000.00 acquisition of property from Amarillo Oil Company. The appreciation is eliminated from recorded lease and other costs by the following Adjusting Journal Entries:

A.J.E. No. 203	Appreciation in the Mission Oil Company acquisition by Amarillo Oil Company	$ 128,534.04
A.J.E. No. 205	Appreciation in the leases in the Cliffside Structures sold to U.S. Government	187,904.20
A.J.E. No. 211	Appreciation in operated and unoperated leases per books as of December 31, 1939	3,120,496.25
A.J.E. No. 216	Appreciation in leases abandoned from 1929 to 1939	25,005.75
A.J.E. No. 217	Appreciation in the Ingerton Lease #27, sold in 1935	34,595.00
	Appreciation transferred to Gas Plant Adjustment	$3,496,535.24

Interest Computation on Appreciation Transferred

Amount $3,496,535.24
1-day's interest based on 6% rate, 365-day year 574.7729
Period concerned, May 1, 1927 to July 1, 1928 = 1 year and 61 days or 426 days
Interest eliminated = 426 x $574.7729 or $244,853.26

cket G-124

Exhibit No. 146

CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

count / mber		Debit	Credit
	No. 250-A		
	Surplus - Miscellaneous Income Deductions (1933)	$ 10,233.36	
20-D	Transmission Line Right of Way (Clayton Lateral)	89.08	
22-M	Measuring Station Structures (Clayton Lateral)	3.19	
25-M	Measuring Station Equipment (Clayton Lateral)		$ 23.39
26-D	Transmission Line Equipment (Clayton Lateral)		10,302.24

To take up Examiner's Entry No. 209 (Colorado nterstate Gas Company) which reallocated original nstruction overheads of that company on a dollar sis in lieu of the original distribution which s made on a mileage basis within the transission system. This entry adjusts the overheads ontained in the transfer price of the Clayton ateral properties as shown by Colorado Interstate oucher F-12, 1933.

Account Number	Amount of Original Transfer	Amount per Examiner's Entry No.209	Net Adjustment
220-D	$ 1,606.50	$ 1,695.58	$ 89.08
226-D	38,433.00	28,130.76	(10,302.24)
218-M	100.00	100.00	
222-M	342.28	345.47	3.19
225-M	1,265.10	1,241.71	(23.39)
Totals	$41,746.88	$31,513.52	($10,233.36)

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number		Debit	Credit
	No. 250-B		
226-D	Transmission Line Equipment	$ 5,714.89	
	Clayton Lateral $5,714.89		
	Reserve for Depreciation (Transmission Line Equipment)		$ 5,714.89
	Clayton Lateral ($5,714.89)		

To adjust retirement made in 1938 of the 2" part of the Clayton Lateral. This adjustment is necessary because the retirement of overheads was made on a mileage basis (Voucher M-19,1938) whereas the Examiner's Entry No. 209 of Colorado Interstate Gas Company adjusted such overheads by reallocating all that company's overheads on a dollar basis in lieu of the basis used originally. The details of this adjustment are as follows:

Direct Costs of Clayton Lateral (Account 226) at December 31, 1929	$15,645.99
Direct Costs Retired during 1938	7,731.01
Retirement of Direct Costs percent to total =	49.41%
According to Entry No. 209 (Colorado Interstate Gas Company) the total overheads in Clayton Lateral costs were	2,123.09
Applying the percent above of 49.41 x $2,123.09 =	1,049.02
In 1938 the company retired 56.1736% of the original overheads of $12,041.08 or	6,763.91

The excess retirement is $6,763.91 minus $1,049.02 or $5,714.89 as shown above in the adjustment.

2713.

Docket G-124

Exhibit No. 14c

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

Account Number		Debit	Credit
	No. 251		
215-M	Field Measuring Station Equipment	$ 15.33	
257-E	Other General Equipment	846.89	
	Reserve for Depreciation (Field Measuring Station Equipment)	55.45	
225-M	Measuring Station Equipment		$ 917.67

To transfer certain items of equipment to other accounts as recommended by attached memorandum from Bureau of Engineering. See posting memoranda below:

Description	Location	Acct.225	Acct.215	Acct.257	Reserve for Depreciation
(1) 1 - 50" Manometer	Clayton	($ 18.58)		$ 18.58	
(2) 1 Pressure Gauge	Texline	(70.78)			
do.	F-820		$70.78		
(3) 1 - 3½" Dial Test Gauge	Dalhart	(12.22))			
1 Pocket Test Gauge	Dalhart	(18.30))		80.40	
18 - 0 to 100# Spring Gauges	Dalhart	(27.00))			
1 - 50" Manometer	Dalhart	(22.88))			
(4) 1 Portable Temp. Gauge	Bivins	(58.66))			
1 Crosby Gauge Tester	Bivins	(125.91))		747.91	
1 Acme Specific Gravity Balance	Bivins	(266.34))			
1 Calorimeter	Bivins	(297.00))			
(5) 1 - 10" Recording Thermometer	F-401		(55.45)		$55.45
Totals		($917.67)	$15.33	$846.89	$55.45

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CANADIAN RIVER GAS COMPANY
EXAMINER'S ADJUSTING ENTRIES

No. 251 (Cont'd)

OPY

MEMORANDUM

Colorado Springs, Colorado
July 13, 1940

bject: Canadian River Gas Company
Recommended Adjustments in Plant Accounts

At the time of our inspection of the property of Canadian ver Gas Company in August and September 1939, certain measuring staon equipment recorded on the company's books was not found in place. October 7, 1939 a letter describing this equipment and requesting formation concerning its present location was addressed to the mpany. After considering the company's reply of July 9, 1940, it recommended that the following adjustments be made:

) Clayton Measuring Station

1 - 50" Manometer	$18.58

This item, carried in Account 225-M, should be transferred to Account 257, General Equipment.

) Texline Measuring Station

1 - 8" 24-hour 50# Volume-pressure Gauge	$70.78

This item, carried in Account 225-M, should be transferred to Account 215-M, Field Line F-820.

) Dalhart Measuring Station

1 - 3½" Dial Test Gauge	$12.22
1 - Pocket Test Gauge	18.30
18 - 0 to 100# Springe Gauges	27.00
1 - 50" Manometer	22.88

The above listed equipment, carried in Account 225-M, should be transferred to Account 257, General Equipment.

) Main Line Measuring Station (Bivins Outlet)

1 - Portable Temperature Gauge	$ 58.66
1 - Crosby Gauge Tester	125.91
1 - Acme Specific Gravity Balance	266.34
1 - Calorimeter	297.00

The above listed equipment, carried in Account 225-M, should be transferred to Account 257, General Equipment.

) Chicago Measuring Station

1 - 10" Recording Thermometer	$55.45

This has been lost and should be retired with no salvage.

/s/ Lee M. Hill
Lee M. Hill
Engineer

INVESTMENT IN GAS PLANT PER BOOKS AND AS ADJUSTED
AS OF DECEMBER 31, 1939

Account Number (1)	Description (2)	Per Books Quantity (3)	Per Books Amount (4)	Examiner's Adjustments Debit (5)	Examiner's Adjustments Credit (6)	Adjusted Amounts (7)	Suspended for Commission's Consideration (8)
	PRODUCTION SYSTEM						
205	Operated Acreage - Leaseholds	319,665.44	$ 5,722,261.05		$4,176,383.53	$ 1,545,877.52	
205	Unoperated Acreage - Leaseholds	5,332.14	135,241.69		77,098.60	58,143.09	
	Total	324,997.58	$ 5,857,502.74		$4,253,482.13	$ 1,604,020.61	
211-212	Gas Wells						
212	Well Pipe	369,443'2"	$ 780,803.77		$ 14,450.77	$ 766,353.00	
212	Line Pipe	1,670'7"	379.66			379.66	
212	Other Equipment		53,958.14		583.92	53,374.22	
211	Construction		2,413,769.48		204,265.75	2,209,503.73	
	Total		$ 3,248,911.05		$ 219,300.44	$ 3,029,610.61	
	Gas Department Adjustment		$ (490,813.74)	$ 490,813.74			
216	Drilling and Cleaning Equipment		$ 24,679.54			$ 24,679.54	
	Field Lines						
214-B	Pipe	758,044'0"	$ 802,494.27			$ 802,494.27	
214-B	Fittings		89,660.81			89,660.81	
214-B	Total Equipment		$ 892,155.08			$ 892,155.08	($49,097.80
213-B	Construction		345,373.36		$ 7,768.15	337,605.21	(
206-B	Rights of Way		13,512.51	$ 7,901.15		21,413.66	(
	Total Field Lines		$ 1,251,040.95	$ 7,901.15	$ 7,768.15	$ 1,251,173.95	$49,097.80
	Other Field Facilities						
209-M	Field Measuring Station Structures		$ 9,301.40			$ 9,301.40	$ 298.89
215-M	Field Measuring Station Equipment		49,837.88	$ 15.33		49,853.21	1,412.61
221-B	Field Compressor Station Structures		3,308.84			3,308.84	11.94
224-B	Field Compressor Station Equipment		15,762.02			15,762.02	663.14
	Total		$ 78,210.14	$ 15.33		$ 78,225.47	$ 2,326.58
	Gasoline Investment						
900	Land (Amarillo)	6.15 acres	$ 615.00		$ 615.00		
902	Rights of Way	487 rods	242.13			$ 242.13	
903	Structures		48,545.21			48,545.21	$ 1,899.95
904	Equipment		293,112.72	$ 1,986.37		295,099.09	11,580.66
905	Delivery Line (3" Pipe)	6,748'11"	2,792.48			2,792.48	
906	Loading Rack (Exell)		3,802.16			3,802.16	
	Total		$ 349,109.70	$ 1,986.37	$ 615.00	$ 350,481.07	$13,480.61
	Total Production System		$10,318,640.38	$ 500,716.59	$4,481,165.72	$ 6,338,191.25	$64,904.99

2719

Exhibit No. 146

Account Number (1)	Description (2)	Per Books Quantity (3)	Per Books Amount (4)	Examiner's Adjustments Debit (5)	Examiner's Adjustments Credit (6)	Adjusted Amounts (7)	Suspended for Commission's Consideration (8)
	TRANSMISSION SYSTEM						
	Mains and Laterals						
218-D	Land	20 acres	$ 579.34		$ 561.34	$ 18.00	
220-D	Rights of Way		31,826.56	$ 24,566.28		56,392.84	
226-D	Equipment:						
	Pipe	522,179'7"	$ 1,744,491.14		$ 690.42	$ 1,743,800.72	
	Couplings, Valves, Fittings and Sundry Materials		263,647.90			263,647.90	
	Construction Costs		468,919.43		31,613.55	437,305.88	$ 75,413.81
	Total, Account 226-D		$ 2,477,058.47		$ 32,303.97	$ 2,444,754.50	$ 75,413.81
	Total Mains and Laterals		$ 2,509,464.37	$ 24,566.28	$ 32,865.31	$ 2,501,165.34	$ 75,413.81
	Dehydration Plant						
218-D	Land	10 acres	$ 441.22			$ 441.22	
223-D	Structures		6,193.62			6,193.62	
227-D	Equipment		35,138.83			35,138.83	
	Total Dehydration Plant		$ 41,773.67			$ 41,773.67	
	Main Compressor Station (Bivins)						
218-C	Land	61 acres	$ 1,515.66			$ 1,515.66	$ -
221-C	Structures		95,060.65	$ 3,710.00		98,770.65	5,940.47
224-C	Equipment		539,441.11		$ 5,953.38	533,487.73	24,533.37
	Total Main Compressor Station		$ 636,017.42	$ 3,710.00	$ 5,953.38	$ 633,774.04	$ 30,473.84
	Measuring Stations						
218-M	Land	5.51 acres	$ 503.75			$ 503.75	$ -
222-M	Structures		6,045.90	$ 3.19		6,049.09	253.55
225-M	Equipment		15,615.29	396.01	$ 3,137.07	12,874.23	448.36
	Total Measuring Stations		$ 22,164.94	$ 399.20	$ 3,137.07	$ 19,427.07	$ 701.91
	Bivins Camp Investment						
218-BC	Land	17.2 acres	$ 826.25			$ 826.25	$ -
223-BC	Structures		163,246.08			163,246.08	6,395.78
227-BC	Equipment		22,086.27	$ 93.50		22,179.77	-
	Total Bivins Camp Investment		$ 186,158.60	$ 93.50		$ 186,252.10	$ 6,395.78
	Total Transmission System		$ 3,395,579.00	$ 28,768.98	$ 41,955.76	$ 3,382,392.22	$112,985.34
	UNDISTRIBUTED FIXED CAPITAL						
200	Organization Expense		$ 387.45			$ 387.45	$ -
203	Other Undistributed Fixed Capital		8,843.16			8,843.16	8,362.24
	General Construction Items			$ 2,196.01		2,196.01	-
262	Law Expenditures during Construction		53,091.59		$ 51,812.14	1,279.45	-
266	Interest during Construction		556,897.95		555,867.62	1,030.33	-
	Total Undistributed Fixed Capital		$ 619,220.15	$ 2,196.01	$ 607,679.76	$ 13,736.40	$ 8,362.24

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Schedule N . 1
Sheet 3 of 3

CANADIAN RIVER GAS COMPANY
INVESTMENT IN GAS PLANT PER BOOKS AND AS ADJUSTED
AS OF DECEMBER 31, 1939

Account Number (1)	Description (2)	Per Books Quantity (3)	Per Books Amount (4)	Examiner's Adjustments Debit (5)	Examiner's Adjustments Credit (6)	Adjusted Amounts (7)	Suspended for Commission's Consideration (8)
	GENERAL PROPERTY						
247-E	Office Structures		$ 2,793.03			$ 2,793.03	$ -
248-E	Other Structures		33,588.04			33,588.04	58.87
249-E	General Office Equipment		11,735.27			11,735.27	-
250-E	General Store Equipment		6,154.19			6,154.19	72.01
255-E	Telephone System - Equipment		73,081.00			73,081.00	574.51
255	Telephone System - Rights of Way		11,518.14	$ 2,049.00	$ 235.00	13,332.14	
256-E	General Tools and Implements		8,350.86			8,350.86	
257-E	Other General Equipment		3,050.25	846.89		3,897.14	
253	General Garage Equipment (Autos, etc.)		36,078.40			36,078.40	
	Total General Property		$ 186,349.18	$ 2,895.89	$ 235.00	$ 189,010.07	$ 705.39
	TOTAL GAS PLANT ACCOUNTS		$14,519,788.71	$ 534,577.47	$5,131,036.24	$ 9,923,329.94	$186,957.96
	MISCELLANEOUS						
100-4	Gas Plant Held for Future Use Gas Well Investment (211-212)			$ 80,952.45		$ 80,952.45	
107	Gas Plant Adjustments			4,091,880.88		4,091,880.88	
110	Other Physical Property			1,176.34		1,176.34	
	Construction in Progress		$ 150,582.36			150,582.36	
	TOTAL		$14,670,371.07	$4,708,587.14	$5,131,036.24	$14,247,921.97	$186,957.96

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Exhibit No. 146

Exhibit G-124

CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

Examiner's Entry No.	Description	Leases: Operated	Leases: Unoperated	Gas Well Investment (211-212)	Transmission Rights of Way (220-D)	Compressor Station Equipment (224-C)	Transmission Line Equipment (226-D)	Interest during Construction (266)	Gasoline Plant Equipment (904)	Gas Plant Adjustment (107)	Surplus: Year	Surplus: Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
200	Elimination of writeups in Master Oil and Gas property	($ 121,786.50)								$ 121,786.50		
201	Elimination of Delay Rentals from Lease Costs	(100,559.03)	($ 51,032.20)								1929 to) 1939)	$151,591.23
202	Reclassification of Mountain States Gas Co. Leases and Wells	(54,508.94)		$ 54,508.94								
203	Elimination of writeups in Mission Oil Company property	(417,681.81)		289,147.77						128,534.04		
204	Adjustment to reflect the profit in sale of Cliffside Structure to U.S. Government	(782,082.67)										
205	do.	310,304.64								187,904.20	1929	(498,206.84)
206	do.	4,399.73									(1930 (1931	(4,287.24) (112.49)
206	do.	49,213.88										
[illegible]	do.	(28,327.24)									(1929 (1929	28,553.91 (226.67)
209	do.	4,722.50									1929	(4,722.50)
210	do.	2,539.62									1930	(2,539.62)
211	Elimination of Appreciation re Amarillo Oil Company Leases	(3,094,429.85)	(26,066.40)							3,120,496.25		
212	Reclassification of Law Expenses during Construction	51,812.14										
213	Reclassification between years of Certain Lease Costs		(138,427.32 ((138,427.32)									
214	Not Used											
215	do.											
216	Adjusting Appreciation on Abandoned Leases									25,005.75	1929 to) 1939)	(25,005.75)
217	Adjusting Appreciation on Ingerton Lease #27 sold in 1935									34,595.00	1935	(34,595.00)
218	Adjustment re Parcomis Oil and Gas Company re Ingerton Lease sale.									7,875.00	1935	(7,875.00)
219	Adjustment of Notes Receivable re Ingerton Lease sale									(124.44)	1935	(829.57 ((705.13)
220	Not Used											
221	do.											
222	do.											
223	do.											
224	do.											
225	Elimination of 2 unconnected wells from Gas Plant in Service			(80,952.45)								

Exhibit No. 146

Subschedule No. 1-A
Sheet 1 of 3

CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

...ases	Unoperated	Gas Well Investment (211-212)	Transmission Rights of Way (220-D)	Compressor Station Equipment (224-C)	Transmission Line Equipment (226-D)	Interest during Construction (266)	Gasoline Plant Equipment (904)	Gas Plant Adjustment (107)	Surplus Year	Surplus Amount	Miscellaneous Income Deductions	Miscellaneous Description	Miscellaneous Amount
	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
50)								$ 121,786.50					
03)	($ 51,032.20)								1929 to)	$161,591.25			
									1939)				
94)		$ 54,508.94											
81)		239,147.77						128,534.04					
67)											$782,082.67		
64								187,904.20	1929	(498,208.84)			
73									(1930	(4,287.24)			
									(1931	(112.49)			
86												(Reserve for Depreciation (1930)	($ 10,992.50)
												(Reserve for Depletion (1930)	(38,221.38)
24)									(1929	28,553.91			
									(1929	(226.67)			
50									1929	(4,722.50)			
62									1930	(2,539.62)			
85)	(26,066.40)							3,120,496.25					
14												Law Expenses during Construction	(51,812.14)
	(138,427.32												
	((138,427.32)												
								25,005.75	1929 to)	(25,005.75)			
									1939)				
								34,595.00	1935	(34,595.00)			
								7,875.00	1935	(7,875.00)			
								(124.44)	1935	(829.57			
										((705.13)			
		(80,952.45)										Gas Plant held for future use	80,952.45

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CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

iner's try No. (1)	Description (2)	Leases: Operated (3)	Leases: Unoperated (4)	Gas Well Investment (211-212) (5)	Transmission Rights of Way (220-D) (6)	Compressor Station Equipment (224-C) (7)	Transmission Line Equipment (226-D) (8)	Interest during Construction (266) (9)	Gasoline Plant Equipment (904) (10)	Gas Plant Adjustment (107) (11)	Surplus: Year (12)	Surplus: Amount (13)
-226	Reclassification of Certain Well Costs			($ 81,921.21 ((81,921.21)								
-227	Reclassification of Gas Department Adjustment			(496,198.55)								
-228	do.			5,384.81								
229	To set up certain development costs of Bivins C-4 Well (Amarillo)			8,809.04						($ 8,809.04)		
-230	Reclassification of Survey Costs				$20,201.53		($20,201.53)					
-231	Reclassification of Right of Way Costs				(2,182.00)							
232	Elimination from Gas Plant in Service of Gasoline System Land											
-233	Reclassification of Gasoline Equipment								($ 56.07 ((56.07)			
-234-A	Reclassification of Cooling Tower and Heat Exchangers					$20,704.18			(20,704.18)			
-234-B	do.					(24,088.65)			24,088.68			
-235	Reclassification of Measuring Equipment					(93.50)						
-236	Reclassification of 2 Water Pumps					304.62			(304.62)			
-237	Reclassification of Oil Storage Tank					930 00			(697.50)			
-238	Reclassification of Measuring Equipment								(396.01)			
-239	Reclassification of Overhead Traveling Crane					(3,710.00)						
-240	Reclassification of Clearing Costs				2,675.02		(2,675.02)					
241	Elimination of Duplicate Right-of-Way Charge				(367.00)							
242	Elimination of Duplicate Charge for 176'10" of 22" Pipe						(690.42)				1931	$ 690.42
243	Elimination of Excess Land (Stamper Farm)											
-244	Reclassification of Damage Costs				4,149.65		(4,149.65)					
245	Adjusting Telephone Right-or-Way Cost											
246	To Adjust Interest during Construction							($556,897.95)		556,897.95		

Exhibit No. 146

Subschedule No. 1-A
Sheet 2 of 3

CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

Leases: Operated (3)	Leases: Unoperated (4)	Gas Well Investment (211-212) (5)	Transmission Rights of Way (220-D) (6)	Compressor Station Equipment (224-C) (7)	Transmission Line Equipment (226-D) (8)	Interest during Construction (266) (9)	Gasoline Plant Equipment (904) (10)	Gas Plant Adjustment (107) (11)	Surplus: Year (12)	Surplus: Amount (13)	Miscellaneous Income Deductions (14)	Miscellaneous: Description (15)	Miscellaneous: Amount (16)
		($ 81,921.21											
		((81,921.21)											
		(496,198.55)										Gas Department Adjustment	$496,198.55
		5,384.81										do.	(5,384.81)
		8,809.04						($ 8,809.04)					
			$20,201.53		($20,201.53)							(Gathering System Rights of Way	
												((Acct. 206-B)	7,768.15
												(Field Line Construction	
												((Acct. 213-B)	(7,768.15)
			(2,182.00)									(Gathering System Rights of Way	
												((Acct. 206-B)	133.00
												(Telephone System Right of Way	
												((Acct. 255)	2,049.00
												(Other Physical Property	
												((Acct. 110)	615.00
												(Gasoline System Land (Acct. 900)	(615.00)
							($ 56.07						
							((56.07)						
				$20,704.18			(20,704.18)						
				(24,088.68)			24,088.68						
				(93.50)								Bivins Camp (Yard Gas Lines	
												#227-13)	93.50
				304.62			(304.62)						
				930 00			(697.50)					Reserve for Depreciation	
												(Acct. 224-18)	(232.50)
							(396.01)					Measuring Station Equipment	
												(Acct. 225-M)	396.01
				(3,710.00)								Main Compressor Station Structures	
												(Acct. 221-C-A)	3,710.00
			2,675.02		(2,675.02)								
			(367.00)									Reserve for Depreciation (Transmission Line Right of Way)	367.00
					(690.42)				1931	$ 690.42			
												(Other Physical Property (Acct. 110)	561.34
												(Transmission System Land	
												((Acct. 218-D)	(561.34)
			4,149.65		(4,149.65)								
											$ 235.00	Telephone System Right of Way	
												(Acct. 255)	(235.00)
						($556,897.95)		556,897.95					

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CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

...iner's ...try No.	Description	Leases		Gas Well Investment (211-212)	Transmission Rights of Way (220-D)	Compressor Station Equipment (224-C)	Transmission Line Equipment (226-D)	Interest during Construction (266)	Gasoline Plant Equipment (904)	Gas Plant Adjustment (107)
		Operated	Unoperated							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
247	To Adjust Interest During Construction							$460,435.86		($460,435.86)
248	do.							(214,552.27)		133,302.27
249	do.							(244,853.26)		244,853.26
250-A	Reallocation Clayton Lateral Overheads				$ 89.08		($10,302.24)			
250-B	Adjustment of Overhead Retirements - Clayton Lateral						5,714.89			
251	Adjustments due to Field Inspection (F.P.C. Engineers).									
252	do.									
	Totals	($4,176,383.53)	($77,098.60)	($219,300.44)	$24,566.28	($ 5,953.38)	($32,303.97)	($555,867.62)	$ 1,986.37	$4,091,880.88

Exhibit No. 146

Subschedule No. 1-A
Sheet 3 of 3

CANADIAN RIVER GAS COMPANY
SUMMARY OF PLANT ACCOUNT ADJUSTMENTS

Leases: Operated (3)	Leases: Unoperated (4)	Gas Well Investment (211-212) (5)	Transmission Rights of Way (220-D) (6)	Compressor Station Equipment (224-C) (7)	Transmission Line Equipment (226-D) (8)	Interest during Construction (266) (9)	Gasoline Plant Equipment (904) (10)	Gas Plant Adjustment (107) (11)	Surplus: Year (12)	Surplus: Amount (13)	Miscellaneous Income Deductions (14)	Miscellaneous: Description (15)	Miscellaneous: Amount (16)
						$460,435.86		($460,435.86)					
						(214,552.27)		133,302.27			$ 81,250.00	Included as Operating Revenue in Income Statement	
						(244,853.26)		244,853.26					
			$ 89.08		($10,302.24)						10,233.36	(Measuring Station Structures ((Acct. 222-M)	$ 3.19
												(Measuring Station Equipment ((Acct. 225-M)	(23.39)
					5,714.89							Reserve for Depreciation (Acct. 226-D)	(5,714.89)
												(Field Measuring Station (Equipment (215-M)	15.33
												(Other General Equipment (257-E)	846.89
												(Reserve for Depreciation ((Acct. 215-M)	55.45
												(Measuring Station Equipment ((Acct. 225-M)	(917.67)
												(Undistributed Fixed Capital ((General Construction)	2,196.01
												(Measuring Station Equipment ((Acct. 225-M)	(2,196.01)
($4,176,383.63)	($77,098.60)	($219,300.44)	$24,566.28	($ 5,953.36)	($32,303.97)	($565,867.62)	$ 1,966.37	$4,091,880.88		($396,613.11)	$873,801.03		$471,286.09

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Exhibit No. 146

SUMMARY OF COST OF LEASEHOLDS
1928 TO 1939

Particulars (1)		Leaseholds: Operated (2)	Leaseholds: Unoperated (3)	Leaseholds: Appreciation (4)	Total (5)
Amarillo Oil Company:					
Book value of leases as of January 16, 1923 acquired from individuals		$ 8,488.47	$ 1,803.00		$ 10,291.47
Acquired from:					
Mission Oil Company		417,681.81			417,681.81
Mountain States Gas Company		267,033.85	134,173.03		401,206.88
1927 payment to settle litigation re Masterson lease 26-H		106,462.18			106,462.18
Panhandle Pipe Line Company (See company adjustments)			160.00		160.00
Individuals		20,538.34	37,159.70		57,698.04
Leases transferred		15,067.03	(15,067.03)		
Appreciation set up by J.E. J-205 as of June 1, 1928				$2,755,916.95	2,755,916.95
Total cost of leases as recorded by J.E. 205		$ 835,271.68	$ 158,228.70	$2,755,916.95	$3,749,417.33
Appreciation set up by J.E. M-35 in December 1928 to reflect the assumption of the following accounts:					
Gas Department Adjustment	490,587.07				
Reserve for Depletion, December 31, 1927	148,184.52				
Reserve for Depreciation, December 31, 1927	96,387.96				
Channing Warehouse Stock	2,336.33				
C. W. Walters - Bonus Suspense	184.82			737,680.70	737,680.70
Total cost of leases acquired from Amarillo Oil Company as recorded (See subsequent company adjustments shown below)		$ 835,271.68	$ 158,228.70	$3,493,597.65	$4,487,098.03
Leases purchased by Amarillo Oil Company for Canadian River Gas Company from:					
Prairie Oil and Gas Company			70,632.00		70,632.00
Oil, Gas and Pool Company		20,203.95	59,796.05		80,000.00
Individuals		48,622.62	278,266.60		326,889.22
Leases transferred		67,393.08	(67,393.08)		
Purchase of lease:					
Master Oil and Gas Company		133,290.08	8,133.33		141,423.41
Balance December 31, 1928		$1,104,781.41	507,663.60	$3,493,597.65	$5,106,042.66

SUMMARY OF COST OF LEASEHOLDS
1928 TO 1939

Particulars (1)	Leaseholds: Operated (2)	Leaseholds: Unoperated (3)	Leaseholds: Appreciation (4)	Total (5)
Company adjustments:				
Amount designated "Cost of obtaining leases" charged to expense by J.E. M-467 in 1928. It was disallowed as an income-tax deduction and therefore restored to lease costs on J.E. B-336 and E-340 in 1930	$ 31,913.34	$ 3,444.95		$ 35,358.29
Adjustment of cost of obtaining leases	(6.00)	8.12		2.12
To reflect Panhandle Pipe Line Company lease at its book cost	18,240.00		$ (18,240.00)	
To set up the inventory value of the following wells which was not included in J.E. J-205:			(39,798.51)	(39,798.51)

Well No.	Inventory	Previously Recorded	To adjust
Bivins B-3	$29,012.43	$ 8,948.68	$20,063.75
Warrick A-1	27,763.05	8,028.29	19,734.76

Particulars (1)	Operated (2)	Unoperated (3)	Appreciation (4)	Total (5)
To adjust reserves as of December 31, 1927:			(67,557.94)	(67,557.94)

	Reserve for Depletion	Reserve for Depreciation
Recorded J.E. M-35	$148,184.52	$ 96,387.96
Adjusted amount	66,929.99	110,084.57
To adjust	$ 81,254.55	$(13,696.61)

Particulars (1)	Operated (2)	Unoperated (3)	Appreciation (4)	Total (5)
Total company adjustments	$ 50,147.34	$ 3,453.07	$ (125,596.45)	$ (71,996.04)
Balance December 31, 1928, as adjusted by company	$1,154,928.75	$ 511,116.67	$3,368,001.20	$5,034,046.62
Lease transactions, 1929-1939:				
Leases acquired	866,672.38	173,741.10		1,040,413.48
Leases transferred	488,687.36	(488,687.36)		
Leases abandoned		(138,427.32)	(25,005.75)	(163,433.07)
Leases sold:				
United States Government (Cliffside Structure)	(18,233.57)		(187,904.20)	(206,137.77)
R. A. Burnett (Ingerton lease)	(12,389.41)		(34,595.00)	(46,984.41)
Bonus renewals and delay rentals charged to plant accounts	100,559.03	51,432.20		151,991.23
Royalty interests acquired (mineral rights in fee)	47,606.66			47,606.66
Balance December 31, 1939, per books	$2,627,831.20	$ 109,175.29	$3,120,496.25	$5,857,502.74

CANADIAN RIVER GAS COMPANY
SUMMARY OF COST OF LEASEHOLDS
1928 TO 1939

Particulars (1)	Leaseholds: Operated (2)	Leaseholds: Unoperated (3)	Leaseholds: Appreciation (4)	Total (5)
Balance December 31, 1939, per books (Forwarded)	$2,627,831.20	$ 109,175.29	$3,120,496.25	$5,857,502.74
Adjustments - Federal Power Commission Examiner:				
J.E. 200 Profit on leases purchased from Master Oil and Gas Company removed to Gas Plant Adjustment account	$ (121,786.50)			$ (121,786.50)
J.E. 201 Bonus renewals and rentals removed to Delay Rentals, Income account	(100,559.03)	$ (51,032.20)		(151,591.23)
J.E. R-202 Tangible well costs removed to Gas Well Investment	(54,508.94)			(54,508.94)
J.E. 203 Development cost of wells removed to Gas Well Investment and write-up of cost of leases removed to Gas Plant Adjustment account	(417,681.81)			(417,681.81)
J.E. 204 to 210 Profit on leases in Cliffside Structure sold to U.S. Government	(439,229.54)			(439,229.54)
J.E. 211 Appreciation in cost of leases removed to Gas Plant Adjustment account			$(3,120,496.25)	(3,120,496.25)
Total	$(1,133,765.82)	$ (51,032.20)	$(3,120,496.25)	$(4,305,294.27)
J.E. R-212 Law expenditures paid in 1928 for examining and curing title to leases acquired	$ 51,812.14			$ 51,812.14
Total	$(1,081,953.68)	$ (51,032.20)	$(3,120,496.25)	$(4,253,482.13)
Adjusted balance, December 31, 1939	$1,545,877.52	$ 58,143.09		$1,604,020.61

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Exhibit No. 146

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Subschedule No. 8-A
Sheet 1 of 2

2735

Exhibit No. 146

CANADIAN RIVER GAS COMPANY
OPERATED LEASES AT DECEMBER 31, 1938 AND 1939
AND SUMMARY OF CHANGES DURING INTERIM
Per Books

Lease Number	Lease	Balance Dec. 31, 1938	Additions: Cost of Obtaining Leases	Additions: Other	Transferred from Unoperated Leases	Leases Sold	Bonus Removals	Adjustments	Consolidations	Balance Dec. 31, 1939	Adjusting Entries: Debit	Adjusting Entries: Credit	Adjusted Balance Dec. 31, 1939
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
6-A	J. T. Sneed, Jr.	$ 11,293.93	$ 554.08				$ 6,530.50			$ 18,378.51		(201) $ 6,530.50	$ 11,848.01
9-A	D. P. Sealy	3,825.80	55.00							3,880.80			3,880.80
11-A	Pagan Land and Cattle Co.	5,546.15				$ (5,546.15)				-			
18-B	Lee Bivins	4,705.77	288.15						$ (4,993.92)	-			
21-B	Terry Thompson	15,786.25	774.47	$ 27.00						16,587.72			16,587.72
22-B	Lee Bivins	7,389.31	541.35	3.75		(1,127.42)			(6,806.99)	-			
23-A	L. E. Crawford	8,750.54	146.67	3.00						8,900.21			8,900.21
25	W. E. Bush	5,315.88				(5,315.88)				-			
26-B	R. B. Masterson	143,254.10	224.08						(143,478.18)	-			
27-A	W. E. Ingerton	12,156.95	203.71	28.75		(12,389.41)				-			
29-A	E. S. Poling	1,195.11	8.15							1,203.26			1,203.26
30-A	Lee Bivins	105,950.79	19,544.78	266,057.95	$ 223.54	(4,956.12)			358,341.09	745,804.83		(201) 9,130.00 (203) 160,731.44	575,943.39
31-A	R. B. Masterson	65,148.13	3,002.69	144.50						68,295.32			68,295.32
32-I	do.	42,658.02	16.30	.75						42,675.07		(202) 16,948.99	25,726.08
43-F	do.	10,088.10	86.76	2,000.38	44,986.19				(6,899.22) 10,630.04	60,892.25		(202) 7,806.25	53,086.00
44-G	do.	22,694.15	63.82	58.41	(665.88)				(11,521.06) (10,630.04)	-			
53	Lee Bivins	165,947.76	1,399.91	99,464.71					(266,812.38)	-			
54-C	R. B. Masterson	74,976.00	965.56	48,223.13					(124,164.69)	-			
55-D	do.	42,131.49	558.32	2,771.75					(45,461.56)	-			
56-B	do.	11,376.00	146.67	7,004.50					(18,527.17)	-			
57-A	J. C. Warrick	4,205.00	242.45	65.85						4,513.30			4,513.30
58-B	R. B. Masterson	135,439.03	1,752.39	78,732.84	2,188.10 184,158.95		39,431.71		372,110.27	813,813.27		(201) 39,431.71 (202) 29,713.70 (203) 256,950.57	487,717.40
60-A	R. O. Allison			35.67	1,160.19					1,195.86			1,195.86
61-A	Dave McBride			736.05	6,061.11					6,797.16			6,797.16
64-B	Elizabeth Crawford			39.26	11,035.70					11,074.96			11,074.96
65-J	R. B. Masterson	6,995.19	670.93	13.00				$ 18,240.00		25,919.12			25,919.12
67-A	Georgie E. Thompson	20,538.34	399.26	86,237.15						107,174.75			107,174.75
68	Thomas M. Coughlan				14,308.16		5,300.00			19,608.16		(201) 5,300.00	14,308.16
69-A	C. L. Kilgore			6.85	38,035.68				6,363.54	44,406.07			44,406.07
71-E	R. B. Masterson	2,222.50	107.45						(2,329.95)	-			
74	W. E. Bush	1,950.00				(1,950.00)				-			
75-L	R. B. Masterson	41,911.04	296.10	1.50	(2,171.81) (31,286.53)				(8,750.30)	-			
76	do.		12.22		1,628.85 (1,641.07)					-			
77	do.		4.07		542.96 (547.03)					-			
81-A	E. E. Reed			774.00	75,000.00		6,750.00			82,524.00		(201) 6,750.00	75,774.00

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Exhibit No. 146

Subschedule No. 2-A
Sheet 2 of 2

Docket G-124

CANADIAN RIVER GAS COMPANY
OPERATED LEASES AT DECEMBER 31, 1928 AND 1939
AND SUMMARY OF CHANGES DURING INTERIM
Per Books

Lease Number (1)	Lease (2)	Balance Dec. 31, 1928 (3)	Additions: Cost of Obtaining Leases (4)	Additions: Other (5)	Transferred from Unoperated Leases (6)	Leases Sold (7)	Bonus Renewals (8)	Adjustments (9)	Consolidations (10)	Balance Dec. 31, 1939 (11)	Adjusting Entries: Debit (12)	Adjusting Entries: Credit (13)	Adjusted Balance Dec. 31, 1939 (14)
									($ (51,099.60))			(200) $ 58,738.68	$ 7,144.32
				$ 47,656.66	$135,073.07		$ 41,010.00		((172,640.13))	$ 65,883.00		(200) 63,047.82	7,659.26
82-J	Bivins Estate			1,141.87						70,707.08			
86-M	R. B. Masterson	$ 64,741.33		2,198.33					(4,612.80)	-			
86-O	J. T. Sneed, Jr.	68,548.75			4,612.80				(6,405.34)	-			8,649.45
88	R. B. Masterson			7,205.34	(800.00)					8,649.46			80,405.97
91-N	do.			8,649.46						80,405.97			
98-A	H. B. Johnson			80,405.97									10,469.21
95-A	J. M. Sanford			3,676.01	8,004.00)					10,469.21			
107-C	J. T. Sneed, Jr.				(1,220.80))							(201) 1,536.82	4,886.71
				11,190.25			$ 5,972.00)		(6,363.54)	6,363.53			
108-D	do.						(4,435.18))		(17,526.00)	-			18,350.43
				17,526.00						18,350.43			6,064.42
113-F	Lee Bivins			18,350.43					(3,000.00)	6,064.42			54,075.67
114-A	Mattie V. Dunaway			9,064.42					3,000.00	54,075.67			5,698.37
116-A	John Q. Bost			51,075.67						5,698.37			22,460.65
117-B	do.			5,698.37						22,460.65			22,460.67
118-B	Mattie V. Dunaway			22,460.65						22,460.67			
119-C	John Q. Bost			22,460.67					(5,752.87)	-			
120-D	do.			5,752.87					(5,752.88)	-			
122-O	Lee Bivins			5,752.88					(1,607.25)	-		(201) 51,880.00	140,768.13
123-N	do.			1,607.25					172,640.13	172,640.13			
124-I	do.			8.00					6,363.54)				
125	Fee "A"								(6,363.54))				
136-N	C. L. Kilgore										(205) $310,304.64	(204) 782,082.67	
Profit on leases in the "Cliffside Structure" sold to U. S. Government											(208) 4,399.73	(207) 28,327.24	(439,289.54)
											(200) 49,213.88		
											(209) 4,782.50		
											(210) 2,539.62		
Legal fees and expenses paid in 1928 for examining and curing title to leases acquired											(212) 51,812.14		51,812.14
Total		$1,104,782.41	$ 31,907.34	$914,279.04	$488,687.36	$(30,622.98)	$100,559.03	$ 18,240.00		$2,627,831.20	$422,992.51	$1,504,946.19	$1,546,877.58

Exhibit G-14 | Sheet 1 of 2

2739
Exhibit No. 146

CANADIAN RIVER GAS COMPANY
UNOPERATED LEASES AT DECEMBER 31, 1938 AND 1939
AND SUMMARY OF CHANGES DURING INTERIM
P e r B o o k s

Lease Number (1)	Lease (2)	Balance Dec. 31, 1938 (3)	Additions: Cost of Obtaining Leases (4)	Additions: Other (5)	Transferred to Operated Leases (6)	Abandoned (7)	Bonus Renewals and Delay Rentals (8)	Balance Dec. 31, 1939 (9)	Adjusting Entries: Debit (10)	Adjusting Entries: Credit (11)	Adjusted Balance Dec. 31, 1939 (12)
1	August Ellsenbach	$ 3,373.97	$ 16.29	$ 4.21	$ (4,594.47)		$ 1,200.00	-			
2	J. T. Sneed, Jr.	3,905.76	65.19	2,407.85		$ (1,275.20)	9,600.00)				
							(1,920.00))	$ 12,783.00		(201) $ 7,680.00	$ 5,103.00
4	R. B. Masterson	1,332.36	10.19		(1,342.55)			-			
10	do.	6.01	8.15		(14.16)			-			
13	J. T. Sneed, Jr.	1,943.52		8,004.00	(8,004.00)	(1,943.52))					
					1,220.80	(1,220.80))		-			
17	Lee Bivins	883.00	4.07			(887.07)		-			
19	M. E. Miller	3,736.42	21.64	40.73			4,250.00	8,048.79		(201) 4,250.00	3,798.79
20	Lee Bivins	5,782.27	16.29			(5,798.56)		-			
28	R. B. Masterson	2,052.02	16.29		(2,068.31)			-			
33	Lee Bivins	221.50	2.04		(223.54)			-			
35	C. J. Hanson	1,532.00	16.30	27.58	(2,775.88)		1,200.00	-			
36	Anthony Walters	3,996.37	33.88	28.42	(4,058.67)			-			
37	R. B. Masterson	6,130.38	16.28	.39	(6,147.05)			-			
38	do.	10,795.37	49.10	.39	(10,844.86)			-			
39	do.	12,211.12	33.02	.38	(12,244.52)			-			
40	do.	10,647.59	28.52	2,000.38	(12,676.49)			-			
41	do.	12,180.27	32.59	.38	(12,213.24)			-			
42	do.	11,378.24	20.55	1,000.38	(12,399.17)			-			
45	do.	8,448.03	32.59	.38	(8,481.00)			-			
46	do.	8,606.90	20.37	2,000.38	(10,627.65)			-			
47	O. H. Cooper	3,718.75	22.64	11.15			2,125.00	5,876.54		(201) 2,125.00	3,751.54
48	C. L. Kilgore	6,127.25	69.24			(6,196.49)		-			
49	R. B. Masterson.	1,604.70	8.15		(1,612.85)			-			
51	do.	2,415.55	12.22		(2,427.77)			-			
52	do.	832.35	4.07		(836.42)			-			
60-A	R. O. Allison	1,150.00	10.19		(1,160.19)			-			
61-A	Dave [illegible]. McBride	6,000.00	61.11		(6,061.11)			-			
62	Jennie M. Wright	3,280.00	33.45			(3,313.45)	6,574.60)				
							(6,574.60))	-			
63	Bettie L. Baker	3,840.00	48.89	33.00			3,320.50	7,242.39		(201) 3,320.50	3,921.89
64-B	J. M. Crawford	10,887.70	148.00		(11,[illegible]5.70)			-			
66	Johanna Gary & Jos. Davies	4,800.00	32.99		(4,8[illegible].59)			-			
68	Thomas M. Coughlin	6,000.00	48.89	32.21	(14,308.46)		4,100.00)				
					3,427.06		(5,300.00))	-			
69-A	C. L. Kilgore	70,632.00	1,918.42		(72,550.42))						
					34,514.14)	(34,514.14)		-			
70	J. M. Crawford	10,336.57	8.12	40.85			8,158.00	18,543.54		(201) 8,158.00	10,385.54
72	S. M. Gage	4,000.00		10.00			194.25	7,204.25		(201) 3,194.25	4,010.00
73	M. Bradley	4,000.00		2.00			3,200.00	7,202.00		(201) 3,200.00	4,002.00
78	R. B. Masterson	10,000.00	36.67	500.00	(10,536.67)			-			
79	W. E. Taylor	2,400.00				(2,400.00)		-			
80	Mary G. Cooper	3,000.00		287.56			2,400.00	5,687.56		(201) 2,400.00	3,287.56
81-A	W. H. Read	75,000.00			(75,000.00)			-			

[illegible]
SUMMARY OF INTANGIBLE WELL COSTS
AS AT DECEMBER 31, 1927
AND DEPLETION ACCRUED THEREON

Lease (1)		Intangible Well Costs: Estimated Development Cost (2)	Depletable Intangible Costs: Cost in Gas Department Adjustment Account (3)	Depletable Intangible Costs: Cost in Gas Well Investment (4)	Total (5)	Gas Produced M.C.F. (6)	Recoverable Gas Reserves M.C.F. (7)	Accrued Depletion (8)
Lee Bivins	A		$1,709.98	$177,628.63	$179,338.61	1,848,068	438,575,725	$ 9,391.01
Lee Bivins	B		22.67	96,128.69	96,151.36	1,201,069	50,607,759	2,718.18
Lee Bivins	C	$ 80,809.04		(3,027.39)	77,781.65	3,923,349	12,907,013	(612.34)
Lee Bivins	D	49,166.50		(6,678.98)	42,487.52	1,887,738	7,804,141	(882.99)
W. H. Bush	A		226.67	41,132.80	41,359.47	31,350	16,680,265	69.44
Fuqua Land and Cattle Co. (Dry hole)	A			38,227.88	38,227.88	-	-	-
R.B. Masterson	A		458.48	72,734.20	74,192.68		(3)	-
R.B. Masterson	B	50,000.00		(5,628.22)	44,371.78	804,641	73,826,313	(28.94)
R.B. Masterson	C	100,223.01		2,571.31	102,794.82	4,143,456	14,510,682	414.22
R.B. Masterson	D	50,000.00		928.36	50,924.36	7,794,169	112,820,038	34.47
R.B. Masterson	E	80,000.00		2,248.15	82,248.15	101,869	(4)	81.46
R.B. Masterson	F	40,000.00		(13,194.07)	26,805.93	101,389	824,943	(1,444.12)
R.B. Masterson	G			31,329.28	31,329.28	146,815	3,204,296	1,380.06
R.B. Masterson	H	38,000.00		(15,933.88)	22,066.12	103,142	2,472,448	(838.09)
R.B. Masterson	I	38,000.00		(17,877.93)	20,122.07	109,654	5,826,847	(347.80)
Terry Thompson	A			9,079.68	9,079.68	-	(5)	-
J.C. Warrick	A		3,193.68		3,193.68			-
Total		(1)$496,198.56	(2)$5,611.48	$412,668.51	$914,478.54	22,196,729	741,129,467	$10,139.34

Notes:

(1) Estimated development costs were reflected in gas well investment as of September 30, 1928 which costs were credited to Gas Department Adjustment account.

(2) In the Gas Department Adjustment account were recorded certain intangible costs which should have been reflected in Gas Well Investment.

(3) Lease acquired by Amarillo Oil Company from Mountain States Gas Company with well completed in 1924. No gas produced from this lease until 1928.

(4) Estimated recoverable reserve transferred to R. B. Masterson D lease.

(5) One-half interest in Thompson A lease purchased in 1926 by Amarillo Oil Company with one completed well. Gas was first produced from this lease in 1928.

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Exhibit No. 146

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Docket G-124

Subschedule No. 2-D
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
SUMMARY OF OPERATED LEASE COSTS
AS AT DECEMBER 31, 1927
AND DEPLETION ACCRUED THEREON

Lease		Depletable Lease Cost	Gas Produced M.C.F.	Estimated Recoverable Gas Reserves M.C.F.	Accrued Depletion
(1)		(2)	(3)	(4)	(5)
Lee Bivins	A	$105,091.71	1,848,068	438,575,725	$ 440.98
Lee Bivins	B	4,765.77	1,201,089	50,607,759	109.64
Lee Bivins	C	64,468.06	3,923,349	12,907,013	14,817.91
Lee Bivins	D	98,979.70	1,887,738	7,504,141	17,100.07
W. H. Bush	A	5,315.88	31,350	18,650,263	11.80
Fuqua Land and Cattle Co. (Dry hole)	A	5,546.15	-	-	-
R.B. Masterson	A	65,148.13	-	(1)	-
R.B. Masterson	B	134,639.03	804,641	73,526,313	1,452.10
R.B. Masterson	C	74,576.00	4,143,456	14,510,682	15,624.31
R.B. Masterson	D	42,131.49	7,794,169	112,820,038	2,312.40
R.B. Masterson	E	11,376.00	101,889	(2)	416.96
R.B. Masterson	F	3,936.06	101,389	824,943	430.70
R.B. Masterson	G	8,642.24	148,815	3,204,295	383.58
R.B. Masterson	H	143,254.10	103,142	2,472,448	2,860.10
R.B. Masterson	I	42,658.02	109,634	5,525,847	829.88
Terry Thompson	A	200.00	-	(3)	-
Total		$810,728.34	22,198,729	741,129,467	$56,790.43

Notes:

(1) Lease acquired by Amarillo Oil Company from Mountain States Gas Company with well completed in 1924. Gas was first produced from this lease in 1928.

(2) Estimated recoverable reserve transferred to R. B. Masterson D lease.

(3) One-half interest in Thompson A lease purchased in 1926 by Amarillo Oil Company with one completed well. Gas was first produced from this lease in 1928.

Exhibit No. 16

Docket G-124

Subschedule No. 2-E
Sheet 1 of 1

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CANADIAN RIVER GAS COMPANY
SUMMARY OF DEPRECIABLE WELL COSTS
AS AT DECEMBER 31, 1927
AND DEPRECIATION ACCRUED THEREON

Lease		December 31, 1927 Depreciable Cost	Accrued Depreciation
(1)		(2)	(3)
Lee Bivins	A	$ 63,179.45	$ 12,998.67
Lee Bivins	B	40,864.78	11,300.73
Lee Bivins	C and D	30,033.20	23,638.89
W. H. Bush	A	14,035.57	3,508.97
Fuqua Land and Cattle Co.	A	25,264.36	1,263.22
R.B. Masterson	A	31,916.74	7,107.03
R.B. Masterson	B	9,425.92	2,339.96
R.B. Masterson	C	17,126.44	31,932.08
R.B. Masterson	D	5,860.67	1,465.18
R.B. Masterson	E	3,523.72	880.33
R.B. Masterson	F	10,927.39	2,731.84
R.B. Masterson	G	20,647.80	2,575.53
R.B. Masterson	H	14,121.22	3,530.30
R.B. Masterson	I	16,430.50	4,107.63
Terry Thompson	A	3,871.57	704.21
Total		$307,231.33	$110,084.57

The accrued depreciation as shown by the records of the company as of December 31, 1927 was computed in the following manner:

Additions Year Acquired	Amount	Rate	Accrued Depreciation
1924 and prior	$151,389.63	10%	$ 81,639.05
1925	92,323.69	10%	23,080.92
1926	21,886.86	10%	3,283.04
1927	41,631.15	10%	2,081.56
	$307,231.33		$110,084.57

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Exhibit No. 146

CANADIAN RIVER GAS COMPANY
SUMMARY OF GAS WELLS AS OF DECEMBER 31, 1939
AFTER EXAMINER'S ADJUSTMENTS

Well Name (1)	Well Number (2)	Lease Number (3)	Date of First Marketing (4)	Total Per Books (6)	Examiner's Adjustments Debit (7)	Examiner's Adjustments Credit (8)	Adjusted Total (9)	Casing (10)	Other Equipment (11)	Labor, Teaming and Freight (12)	Drilling (13)	Miscellaneous (14)	Depreciation and Adjustments (15)
Allison	A-1	60	2/13/30	$ 28,147.29			$ 28,147.29	$ 6,761.61	$ 718.51	$ 2,444.31	$ 13,415.58	$ 2,971.01	$ 1,836.33
Rivins	A-2	30	11/ 9/24	64,213.56	$ 33,756.89	$ 33,756.89	64,213.56	13,804.99	539.97	5,659.52	28,100.00	58.69	16,050.39
"	A-3	30	Feb. 1926	28,838.54	1,709.98		30,548.52	7,958.14	731.10	7,017.42	17,135.58		(2,273.72)
"	A-4	30	May 1928	41,477.57			41,477.57	2,737.30	366.76	6,762.66	31,219.00	60.69	331.16
"	A-5	30	2/14/29	36,085.34			36,085.34	13,605.90	404.10	5,867.07	15,882.00	58.68	267.59
"	A-6	30	10/28/35	37,378.33			37,378.33	10,646.97	469.17	4,430.94	17,985.75	536.19	3,280.31
"	A-7	30	10/19/35	53,559.80			53,559.80	16,134.51	697.81	6,176.56	21,001.78	4,307.97	5,241.17
"	A-8	30	2/11/29	42,571.78			42,571.78	13,368.13	888.35	5,621.25	21,288.75	972.06	493.24
"	A-9	30	1/ 1/29	50,168.74			50,168.74	17,892.23	865.99	6,305.60	22,700.86	733.86	1,671.40
"	A-10	30	4/ 8/30	39,393.07			39,393.07	9,513.51	448.94	4,215.72	19,464.00	3,432.78	2,318.12
"	A-13	30	3/22/36	35,446.70			35,446.70	6,475.10	740.84	2,475.36	17,173.32	4,957.69	3,684.39
"	A-14	30	11/20/35	22,848.75			22,848.75	4,231.45	558.38	2,318.04	10,108.00	674.51	4,958.37
"	A-15	30	3/28/36	29,570.41			29,570.41	6,084.23	553.84	2,610.98	15,203.16	538.19	4,660.01
"	A-16	30	1/17/36	20,184.95			20,184.95	3,355.15	473.05	1,734.98	10,209.50	651.46	3,760.81
"	A-17	30	1/17/36	28,280.81			28,280.81	5,650.82	366.92	1,395.84	18,767.80	987.93	1,112.70
"	A-18	30	Dec. 1936	21,014.22			21,014.22	3,968.32	402.92	2,310.29	10,430.92	338.45	3,563.32
"	A-19	30	2/24/37	19,771.93			19,771.93	3,951.83	403.38	2,880.44	10,067.75	445.07	1,883.86
"	A-20	30	6/ 8/37	26,805.40			26,805.40	8,367.23	608.59	2,613.47	12,809.50	783.23	2,223.58
"	A-21	30	9/10/37	24,914.56			24,914.56	5,076.36	518.13	2,613.59	14,612.18	771.75	1,322.55
"	A-22	30	None	37,036.08		37,036.08							
"	A-23	30	7/20/38	43,137.25			43,137.25	12,449.69	510.93	5,511.50	21,384.00	856.34	2,484.79
"	A-24	30	12/ 8/38	21,357.54			21,357.54	4,853.51	684.57	1,975.60	12,078.83	392.11	1,432.92
"	A-25	30	7/11/39	23,607.88			23,607.88	5,623.05	528.46	1,824.01	13,462.50	532.91	1,636.95
"	B-1	(30) 18	12/ 7/24	53,134.49	24,543.57	24,543.57	53,134.49	9,879.99	692.09	7,860.74	18,558.65	256.42	16,486.60
"	B-2	(30) 18	9/ 9/25	59,455.32	22.67		59,477.99	13,135.43	619.14	8,458.03	32,584.72	72.09	4,610.58
"	B-3	(30) 18	June 1926	30,498.54			30,498.54	11,788.87	591.04	2,375.05	12,986.25	2.00	2,815.33
"	B-4	(30) 18	12/18/28	28,075.34			28,075.34	8,062.41	576.07	3,002.44	16,580.00	235.27	(380.85)
"	B-5	(30) 18	10/20/28	51,618.79			51,618.79	13,035.57	968.84	16,050.10	14,270.00	96.53	7,197.75
"	B-6	(30) 18	11/29/28	29,290.89			29,290.89	8,077.38	787.61	5,967.89	13,510.00	66.26	881.25
"	C-1	(30) 53	9/28/22	56,240.51	46,352.73	50,000.00	52,593.24	6,027.47	510.53	28,731.14	17,681.99	58.69	(356.18)
"	C-4	(30) 53	1/ 6/24	37,872.06	8,809.04	30,809.04	15,872.06	6,894.16	402.72	2,131.96	6,937.52	58.69	(553.34)
"	D-3	(30) 53	6/20/23	57,137.74	44,376.03	49,166.50	52,347.27	12,268.68	584.54	27,516.85	16,868.18	58.80	(4,889.98)
"	E-1	(30) 22	9/11/28	28,361.32			28,361.32	7,642.44	977.81	3,321.31	13,132.02	1,021.28	2,266.46
"	F-1	(30) 115	8/12/31	36,696.17			36,696.17	10,086.11	529.51	5.50	51.00	(1) 24,756.40	1,267.65
"	G-1	(30) 122	4/ 6/33	19,195.21			19,195.21	3,889.32	379.61	4,119.47	10,200.00	610.90	(4.09)
"	H-1	(30) 123	4/ 6/33	19,698.79			19,698.79	3,782.97	361.95	4,143.73	10,800.00	610.14	
"	I-1	(30) 124	Aug. 1933	16,399.27			16,399.27	6,488.96	532.55	417.54	9,000.00		(39.78)
"	J-1	(30) 82	Apr. 1933	46,242.54			46,242.54	9,271.38	955.82	6,449.46	20,879.08	2,401.94	6,284.86
Best	A-1	116	12/ 8/30	30,303.48			30,303.48	6,322.19	480.92			(1) 23,543.17	17.20
"	B-1	117	8/25/31	30,079.83			30,079.83	14,405.00	207.01	6.16		(1) 15,491.82	(30.16)
"	C-1	119	9/22/31	33,954.62			33,954.62	10,040.67	676.84	4,000.00	16,125.00	757.12	2,354.99
"	C-2	119	11/24/31	19,805.66			19,805.66	3,634.04	447.01	1,137.97	11,848.00	2,094.76	643.88
"	D-1	120	6/24/32	30,725.99			30,725.99	3,629.30	195.49	6,000.00	16,200.00	3,098.34	1,602.86
Coughlan	A-1	68	1/22/37	22,246.09			22,246.09	6,154.64	502.71	2,176.86	10,693.50	764.43	1,953.95
Crawford	A-1	23	9/1 /28	38,508.30			38,508.30	16,029.72	628.31	3,805.34	16,501.07	93.28	1,370.58
"	B-1	64	10/14/31	41,685.44			41,685.44	8,212.06	460.10	11,168.19	15,684.00	6,970.07	1,151.02

Schedule No. 3
Sheet 3 of 3

CANADIAN RIVER GAS COMPANY
SUMMARY OF GAS WELLS AS OF DECEMBER 31, 1939
AFTER EXAMINER'S ADJUSTMENTS

Well Name (1)	Well Number (2)	Lease Number (3)	Date of First Marketing (4)	Total Per Books (6)	Examiner's Adjustments Debit (7)	Examiner's Adjustments Credit (8)	Adjusted Total (9)	Casing (10)	Other Equipment (11)	Labor, Teaming and Freight (12)	Drilling (13)	Miscellaneous (14)	Depreciation and Adjustments (15)
Thompson	B-2	21	6/19/36	$ 24,981.15			$ 24,981.15	$ 4,829.65	$ 542.27	$ 1,791.18*	$ 15,183.00	$ 660.76	$ 2,034.89
Warrick	A-1	57	Sept. 1925	27,757.56	$ 3,193.68		30,951.24	8,653.32	723.80	3,309.99	13,892.85	2.52	4,369.16
"	A-2	57	7/ 7/30	26,875.69			26,875.69	8,196.51	1,100.26	4,405.75	12,464.07	122.22	586.88
Total				$3,248,911.05	$439,771.77	$659,072.21	$3,029,610.61	$766,732.66	$53,374.22	$500,697.51	$1,328,527.89	$164,481.46	$215,996.88

Notes:

(1) Contains drilling costs and labor, teaming and freight. No breakdown available on Respondent's records.

(2) Development costs contained in lease costs. Not segregated here since Respondent's records do not contain necessary information.

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Schedule No. 13
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
SUMMARY OF UNDISTRIBUTED FIXED CAPITAL
AS OF DECEMBER 31, 1939

Account Number (1)	Description (2)		Per Books Amount (3)	Examiner's Adjustments Debit (4)	Examiner's Adjustments Credit (5)	Adjusted Totals (6)
200	Organization Expense		$ 387.45			$ 387.45
203	Other Undistributed Fixed Capital	(1)	8,843.16			8,843.16
	General Construction (Entry 252)			$ 2,196.01		2,196.01
262	Law Expenses during Construction		63,091.59		$ 51,812.14	1,279.45
266	Interest during Construction		556,897.95	$460,435.86	1,016,303.48	1,030.33
	Totals		$619,220.15	$462,631.87	$1,068,115.62	$13,736.40

Note: (1) This item consists principally of pre-construction engineering and design charges. See Schedule 8, Sheet 2 of the Colorado Interstate Gas Company report for explanatory details of this item which was apportioned between the two companies, 75% to Colorado Interstate and 25% to Canadian.

AS OF DECEMBER 31, 1939

Date (1)	Reference No. (2)	Particulars (3)	Total Per Books (4)	Examiner's Adjustments Debit (5)	Examiner's Adjustments Credit (6)	Totals Adjusted (7)
Jan. 1928	A-3 Memo	Colorado Interstate Gas Company. For payment by it to Standard Oil Company (New Jersey) covering "Expenses of F. Andrews and E. P. Hall trip to Galveston, Texas, and Colorado Springs, Colorado, November 11 to December 27, 1927." Total $652.20, whereof there was charged to this account	$ 507.04			$ 507.04
June 1928	F-15 Memo	Colorado Interstate Gas Company. For payment by it to Andrews, Streetman, Logue and Mobley, Houston, Texas. For legal work done in connection with Amarillo-Denver gas project to date (June 8, 1928) $50,000.00 Expenses incurred - books, maps, abstract work, etc. 994.08	50,994.08		$50,994.08	
July 1928	G-40 Memo	Amarillo Oil Company for payment by it to The Prairie Oil and Gas Company, Independence, Kansas, for legal services of Mr. Loftus (Amarillo office) for the month of June 1928. 3-1/2 days attending to title requirement work in connection with Denver project	23.33			23.33
July 1928	G-12	Amarillo Oil Company for payment by it to The Prairie Oil and Gas Company, Independence, Kansas, for traveling and miscellaneous expenses of Mr. T. J. Flonnelly, April 14 to 25, in connection with Denver project	595.69			595.69
Sept. 1928	J-335	Andrews, Streetman, Logue and Mobley, Houston, Texas. Recording fees in several Texas counties $696.15; traveling expenses $60.00; telegrams $48.21; express on abstracts, etc. $2.95; printing $3.00; postage $7.75	818.06		818.06	
Oct. 1928	K-324	Allocation of The Prairie Oil and Gas Company bill No. 69026 of July 31, 1928, paid on Vr. K320, October 1928, covering: "Proportion of the expenditures from the James A. Carroll Commissioner Suspense Account, Amarillo, for the six months' period, ending June 30, 1928."	153.39			153.39
		Total Law Expenditures during Construction as of December 31, 1939	$53,091.59		$51,812.14	$1,279.45

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Subschedule No. 13-B
Sheet 1 of 1

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CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION

Description	Amount
(1)	(2)
Interest Capitalized per Respondent's Books	$556,897.95
Interest during Construction as Revised (F.P.C.)	1,030.33
Net Adjustment	$555, 867.62

Refer to Subschedule No. 13-B1 for details of interest per books
Refer to Subschedule No. 13-B2 for details of interest per books adjusted (Memo only).
Refer to Subschedule No. 13-B3 for details of interest as revised by Examiner and adjustments.

PER BOOKS DECEMBER 31, 1939

Date (1)	Reference (2)	Particulars (3)	Total Per Books (4)
Dec. 1927	M-27 (F.B.& D. Inc.)	Recording interest charged by Interstate Natural Gas Company, Monroe, Louisiana, on expenditures from June 6 to September 30, 1927, for the account of Ford, Bacon & Davis, Inc. (Amarillo-Denver line), aggregating $78,761.92. Interest computed on the individual expenditures from the date made to December 12, 1927	$ 1,631.93
Jan. 1928	A-18 (F.B.& D. Inc.)	Recording interest charged by Interstate Natural Gas Company, Monroe, Louisiana, on advances to W. R. Womble and H. F. Benson, special accounts, and paid for by New York office Benson $45,134.55 from 9/30 to 12/16/27 $571.34 Womble $ 8,636.46 from 11/30 to 12/16/27 22.72	594.06
Jan. 1928	A-18 (F.B.& D. Inc.)	Transfer or allocation of 3/4 of charges as above to Colorado Interstate Gas Company. $1,631.93 / $594.06 x 3/4 =	(1,669.49)
Aug. 1928	H-237	Amarillo Oil Company. Covering charges by Southwestern Development Company as "To charge you with amount paid Colorado Interstate Gas Company, Covering interest charged by Standard Oil Company (New Jersey) on moneys advanced by them for the account of Amarillo Oil Company." Total advance recorded on statement as $78,751.87 and interest charge as $256.91. Canadian River Gas Company portions of above: Advances $44,548.32 and interest as	146.44
Sept. 1928	J-386	Amarillo Oil Company. For interest on prepaid lease rentals to May 31, 1928, applicable to a total of $69,128.15 on component parts thereof for various periods at the rate of 6% per annum	364.45
Sept. 1928	J-387	Amarillo Oil Company. For interest, May 1, 1927 to May 31, 1928 @ 6% on expenditures for drilling new wells. Total of such expenditures $684,229.41. Interest $ 22,288.78 Interest May 1, 1927 to May 31, 1928 @ 6% on expenditures for cost of new leases, lease renewals, etc. Total of such expenditures, $263,455.40. Interest 4,238.85 Less interest @ 6% on $290,000.00 received in April 1928 (2,366.82) Interest May 1, 1927 to May 31, 1928 @ 6% on expenditures for cost of procuring new leases, renewals, curing titles, etc. Total of expenditures $56,630.64. Interest 894.99	

CANADIAN RIVER GAS COMPANY
DETAIL OF INTEREST DURING CONSTRUCTION
PER BOOKS DECEMBER 31, 1929

Date (1)	Reference (2)	Particulars (3)		Total Per Books (4)
		Interest May 1, 1927 to May 31, 1928 @ 6% on unexpired rentals paid in advance. Total amount to which applicable $77,340.24	$ 394.83	
		Interest (from various dates in 1927 to December 8, 1927) as paid on loans and bonds by Southwestern Development Company and subsidiaries, prior to the date the first $2,500,000.00 of Canadian River Gas Company funds were available, or December 8, 1927. This includes interest for 221 days on $1,791,750.00 Southwestern Development Company bonds retired; interest on its interest coupons No. 5, due 2/1/27, and No. 6, due 8/1/27, payment of which were defaulted and interest on money advanced to Southwestern Development Company to purchase coupons 5 and 6 as above	128,319.67	$153,768.21
Oct. 1928	K-328	Contra-credit "Interest Accrued on Funded Debt." Transfer from Interest Expense, covering Interest on Funded Debt from date of issue to October 1, 1928, in accordance with letter from Mr. J. B. Luse, dated 11/30/28. This represents interest for approximately four months on $8,470,000.00 of Canadian River Gas Company bonds.		169,399.97
Oct. 1928	K-332	Correction of entry per Vr. F-13, June 1928, by which the accrued interest on the $8,470,000.00 bonds from June 1, 1928, to June 27, 1928, date of sale, was charged to Colorado Interstate Gas Company and credited to "Interest on Funded Debt." The entry per Vr. K-332, as above, transfers the credit from "Interest on Funded Debt" to "Interest during Construction." This entry to offset in part the charge of $169,399.97 per Vr. K-332 above. 26/30 of $42,350.00 (1 month's interest).		(36,703.33)
Oct. 1928	K-334	Colorado Interstate Gas Company. Taking into account interest on funds advanced by Colorado Interstate Gas Company, interest being calculated to September 30, 1928, per statement from its New York office, and contained in its private files		265,754.56

CANADIAN RIVER GAS COMPANY
DETAIL OF INTEREST DURING CONSTRUCTION
PER BOOKS DECEMBER 31, 1939

Date (1)	Reference (2)	Particulars (3)		Total Per Books (4)
Oct. 1928	K-407	Colorado Interstate Gas Company. Interest on September advances Sept. 8 $ 575,000.00 for 23 days 13 450,000.00 for 18 " 14 765,000.00 for 17 " 18 104,000.00 for 13 " $1,894,000.00	$465.21	
		Less amount charged on Vr. K-281	193.27	$ 271.94
Nov. 1928	L-403	Correction. Cancelling charge for interest on unexpired lease rentals		(394.83)
Nov. 1928	L-416	Correction. Cancelling charge on September Vr. J-386		(364.45)
Dec. 1928	M-465	Transfer and correction. Interest from June 1 to December 31, 1928 on moneys expended by Amarillo Oil Company for Canadian River Gas Company during the period May 1, 1927 to May 31, 1928.	$3,734.04	
		Reinstating charge cancelled by Vr. L-416 above	364.45	4,098.49
		Total Interest during Construction (Per Books)		$556,897.95

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CANADIAN RIVER GAS COMPANY
COMPARISON OF INTEREST DURING CONSTRUCTION, PER BOOKS,
AND AS COMPUTED BY F.P.C. EXAMINER
TO OCTOBER 1, 1928

Description (1)	Principal Amounts Considered (2)	Period From (3)	Period To (4)	Interest Calculation (F.P.C.) (5)	Interest Per Books (6)
Properties originally purchased from Amarillo Oil Company as of May 1, 1927	$5,000,000.00	May 1, 1927	Oct. 1, 1928	$425,753.42	
Expenditures by Amarillo Oil Company per its statement for drilling of wells, acquisition of leases, prepayment of lease rentals, etc.	1,053,603.09	May 1, 1927	Oct. 1, 1928	29,993.64	
Construction by Ford, Bacon & Davis, Inc., per trial balance of August 31, 1928:					
1. Direct	$3,539,585.66	Nov. 1927	Oct. 1, 1928	$118,792.73	
2. General construction accounts distributed in August 1928 between Colorado Interstate Gas Company and Canadian River Gas Company	826,726.14	Nov. 1927	Oct. 1, 1928	25,786.95	
Total Ford, Bacon & Davis construction and interest	$4,366,311.80			$144,579.68	
Construction direct by Canadian River Gas Company:					
1. From Property Suspense account	$ 257,454.57	June 1928	Oct. 1, 1928	$ 3,295.26	
2. From Leaseholds, Account 205	80,988.54	July 1928	Oct. 1, 1928	238.24	
3. From Incomplete Wells, Account 103	173,979.56	June 1928	Oct. 1, 1928	1,747.81	
Total for Canadian River Gas Company	$ 512,422.67			$ 5,281.31	
Interest during construction per books (See Subschedule No. 13-B1)		May 1, 1927	Oct. 1, 1928		$556,897.95
Total interest as computed (F.P.C.) and as recorded by Respondent				$605,608.05	$556,897.95

Note: For comparative purposes; not used as basis for Examiner's adjustments. See Subschedule No. 13-B3 for revised interest calculation.

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CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
AS REVISED BY F.P.C. EXAMINER
FOR PERIOD MAY 1, 1927 TO JULY 1, 1928

Sheet 1 of 1

See Sub-schedule No.	Description (1)	Principal Amounts Considered (2)	Period From (3)	Period To (4)	Interest Calculation (5)
13-B3-1	Properties originally purchased from Amarillo Oil Company as of May 1, 1927	$5,000,000.00	May 1, 1927	July 1, 1928	$350,136.99
13-B3-2	Expenditures by Amarillo Oil Company per its statement for drilling of wells, acquisition of leases, prepayment of lease rentals, etc.	1,053,603.09	May 1, 1927	July 1, 1928	29,183.86
	Construction by Ford, Bacon & Davis, Inc., per their books:				
13-B3-3a	A. Direct construction per trial balance of June 30, 1928	$3,022,505.30	Nov. 1927	July 1, 1928	$ 66,764.05
13-B3-3b	B. General construction accounts distributed in August 1928 between Colorado Interstate Gas Company and Canadian River Gas Company, which originated prior to June 30, 1928	804,454.67	Nov. 1927	July 1, 1928	13,368.03
13-B3-3c	C. Revenues from commissary at Bivins Camp	(14,283.61)	Feb. 1928	July 1, 1928	(148.44)
13-B3-3d	D. Sundry accounts receivable (G. A. Woods, Special, and others)	14,274.46	Nov. 1927	July 1, 1928	689.25
	Total for Ford, Bacon & Davis, Inc. (at June 30, 1928)	$3,826,945.81			$ 80,672.89
13-B3-4	Construction direct by Canadian River Gas Company:				
	A. From Property Suspense account	$ 128,062.46	June 1, 1928	July 1, 1928	$ 315.77
	B. From Incomplete Wells, Account 103	51,243.27	June 1, 1928	July 1, 1928	126.35
	Total for Canadian River Gas Company	$ 179,305.72			$ 442.12
	Total interest revised, before adjustments				$460,435.86
	Examiner's Adjustments				
	No. 248 Operating revenue from properties acquired from Amarillo Oil Company as of May 1, 1927		$214,552.27		
	No. 249 Appreciation on leaseholds acquired from Amarillo Oil Company as of May 1, 1927		244,853.26		(459,405.53)
	Interest during construction after adjustments				$ 1,030.33

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Subschedule No. 13-B3-1
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
PROPERTIES ORIGINALLY PURCHASED FROM AMARILLO OIL COMPANY
ON MAY 1, 1927

Voucher Reference (1)	Account Number (2)	Account Description (3)	Principal Amount Considered (4)	One Day's Interest 6% Rate 365-Day Year (5)	Period From (6)	Period To (7)	Number of Days (8)	Interest Calculation (9)
F-42-1928	205-A	Leaseholds	$3,749,417.33					
	210-A	Buildings	2,754.73					
	211-A	Gas Well Construction	943,450.92					
	212-A	Gas Well Equipment	260,886.92					
	209-B	Measuring Station Structures	125.65					
	210-B	Other Structures	35.00					
	215-B	Measuring Station Equipment	4,758.29					
		Warehouse Material	31,428.74					
		Automobiles	5,439.42					
	121	Material and Supplies	1,703.00					
		Total	$5,000,000.00	$821.9178	May 1, 1927	July 1, 1928	426	$350,136.99

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Subschedule No. 13-B3-2
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
EXPENDITURES BY AMARILLO OIL COMPANY PER ITS STATEMENT
FOR DRILLING OF WELLS, ACQUISITION OF LEASES, ETC.

Voucher Reference (1)	Description (2)	Per Amarillo Oil Co. Statement: Amount (3)	Per Amarillo Oil Co. Statement: 6% Interest to 5/31/28 (4)	One Day's Interest 6% Rate 365-Day Year (5)	Additional Interest to July 1, 1928: Days (6)	Additional Interest to July 1, 1928: Amount (7)	Total Interest (Col. 4 + Col. 7) (8)
F-42-1928 J-387-1928 M-465-1928	Drilling of new wells	$ 684,229.41	$22,288.78	$112.4761	30	$3,374.28	$25,663.06
	Acquiring new leases, renewals, etc.	263,455.40	4,238.85	43.3077	30	1,299.23	5,538.08
	Expenses of curing titles, procuring leases, etc.	36,630.64	894.90	6.0215	30	180.65	1,075.55
	Unexpired rentals paid in advance	69,287.64	364.45	11.3898	30	341.68	706.13
	Subtotal	$1,053,603.09	$27,786.98			$5,195.84	$32,982.82
	Credits						
	Money received from U. S. Government April 30, 1928, re: Helium Deal	(225,000.00)	(1,143.41)	36.9863	30	(1,109.59)	(2,253.00)
	Money received and used in purchase of Emerald and Deischer leases, February 6, 1928	(65,000.00)	(1,225.41)	10.6849	30	(320.55)	(1,545.96)
	Total	$ 763,603.09	$25,418.16			$3,765.70	$29,183.86

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Subschedule No. 13-B3-3a
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
FORD, BACON & DAVIS DIRECT CONSTRUCTION PER TRIAL BALANCE
OF JUNE 30, 1928

Source Ford, Bacon & Davis, Inc. General Ledger (1) Date (1)	Reference (2)	Description (3)	Amount (4)	Total (5)	One Day's Interest 6% Rate 365-Day Year (6)	Interest Calculation to July 1, 1928 No. of Days (7)	Amount (8)
Nov. 1927	VR P-4			$ 108,992.58	$ 17.9166	228	$ 4,084.99
Dec. 1927	VR P-8			646,728.87	106.3116	197½	20,996.54
Jan. 1928	VR P-14			577,670.54	94.9595	166½	15,810.76
Feb. 1928 " "	VR P-21 Memo B-39		$565,385.61 83.27	565,468.88	92.9538	136½	12,688.19
Mar. 1928 " "	VR P-29 CR	Misc. Cash Receipts	$445,626.93 (259.76)	445,367.17	73.2110	106½	7,796.97
Apr. 1928 " "	VR P-37 CR	Misc. Cash Receipts	$257,366.03 (119.00)	257,247.03	42.2872	76½	3,234.97
May 1928 " "	VR P-46 CR	Misc. Cash Receipts	$222,359.60 (273.48)	222,086.12	36.5073	45½	1,661.08
June 1928 " "	VR P-55 CR	Misc. Cash Receipts	$199,559.18 (615.07)	198,944.11	32.7031	15	490.55
		Total		$3,022,505.30			$66,764.05

Note: (1) VR signifies Voucher Register.
CR signifies Cash Receipts Book.

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Subschedule No. 13-B3-5b
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
GENERAL CONSTRUCTION ACCOUNTS DISTRIBUTED IN AUGUST 1928
WHICH ORIGINATED PRIOR TO JUNE 30, 1928

Month of Origin	Account 255 - Telephone Equipment: Total Monthly Additions	Account 255 - Telephone Equipment: To Canadian River Gas Co.	Accounts 258 to 267 (Note 1): Total	Accounts 258 to 267 (Note 1): To Canadian River Gas Co.	(G.A.) Operation & Maintenance Autos & Trucks: Total	(G.A.) Operation & Maintenance Autos & Trucks: To Canadian River Gas Co.	(G.M.) Materials and Supplies: Total	(G.M.) Materials and Supplies: To Canadian River Gas Co.	Total (Col. 3 + 5 + 7 + 9)	One Day's Interest 6% Rate 365-Day Year	Interest Calculation: Days	Interest Calculation: Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Nov. 1927			$ 6,320.72	$ 1,580.18	$ 29.94	$ 4.19			$ 1,584.37	$ .2604	228	$ 59.37
Dec. "			9,010.85	1,849.73	629.15	88.08	$ 5,245.67	$ 576.17	2,513.98	.4133	197½	81.63
Jan. 1928	$43,210.34	$11,882.84	8,430.92	2,339.50	595.16	83.32	45,908.43	10,746.87	25,052.53	4.1182	166½	685.68
Feb. "	22,755.57	6,257.78	4,750.88	1,187.72	1,391.58	194.82	379,280.74	273,515.61	281,155.93	46.2174	136½	6,308.68
Mar. "	11,984.21	3,295.66	4,575.15	1,143.79	1,626.97	227.78	494,783.88	255,012.46	259,679.69	42.6871	106½	4,546.18
Apr. "	15,378.74	4,229.15	6,780.91	1,683.73	1,142.38	159.93	61,947.91	64,805.78	70,878.59	11.6513	76	885.50
May "	22,256.48	6,120.53	6,117.66	1,529.42	2,445.45	342.36	118,646.63	71,313.75	79,306.06	13.0366	45½	593.17
June "	31,351.52	8,621.67	52,867.74	51,462.50	4,119.97	576.80	(116,965.86)	23,622.55	84,283.52	13.8548	15	207.82
Totals		$40,407.63		$62,776.57		$1,677.28		$699,593.19	$804,454.67			$13,368.03

Note: (1) Includes Accounts 258, 259, 260, 261, 262, 263, 264, 266 and 267, all General Overhead Accounts.

Exhibit No. 146

2777

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Exhibit No. 146

Docket G-124

Subschedule No. 13-B3-3c

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
REVENUES FROM COMMISSARY AT BIVINS CAMP

148

Date	Amount	One Day's Interest 6% Rate 365-Day Year	Interest Calculation Days	Interest Calculation Amount
(1)	(2)	(3)	(4)	(5)
Feb. 1928	$ 977.55	$ .1607	136½	$ 21.94
Mar. "	2,515.05	.4134	106½	44.02
Apr. "	3,612.28	.5938	76	45.13
May "	3,916.68	.6438	45½	29.29
June "	3,267.05	.5370	15	8.06
Interest credit on revenues from commissary				$148.44

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
SUNDRY ACCOUNTS RECEIVABLE

Date (1)	Description (2)		Amount (3)	Total for Interest Calculation (4)	One Day's Interest 6% Rate 365-Day Year (5)	Interest Calculation Days (6)	Interest Calculation Amount (7)
Nov. 1927	Advanced - G. A. Woods, Special Account		$ 1,000.00	$ 1,000.00	$ .1644	228	$ 37.48
Dec. 1927	"	do.	1,500.00	1,500.00	.2466	197½	48.70
Jan. 1928	"	do.	$13,500.00				
" "	Disbursed	do.	(1,294.61)	12,205.39	2.0064	166½	334.07
Feb. 1928	Advanced	do.	$15,000.00				
" "	Disbursed	do.	(20,642.56)	(5,642.56)	(.9275)	136½	(126.60)
Mar. 1928	Advanced	do.	$20,000.00				
" "	Disbursed	do.	(21,570.69)	(1,570.69)	(.2582)	106½	(27.50)
Apr. 1928	Advanced	do.	$40,000.00				
" "	Disbursed	do.	(9,105.49)	30,894.51	5.0785	76	385.97
May 1928	Advanced	do.	$30,546.63				
" "	Disbursed	do.	(32,619.06)	(2,072.43)	(.3407)	45½	(15.50)
June 1928	Advanced	do.	$30,000.00				
" "	Disbursed	do.	(21,066.56)	8,933.44	1.4685	15	22.08
	Subtotal						$658.70
	Other Accounts Receivable		$ 3,528.35	$ 3,118.54		Various	30.55
	Total						$689.25

2781

Exhibit No. 146

149

Exhibit No. 146

Docket G-124

Subschedule No. 13-B3-4
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
INTEREST DURING CONSTRUCTION
CONSTRUCTION BY CANADIAN RIVER GAS COMPANY

Date (1)	Description (2)	Amount (3)	One Day's Interest 6% Rate 365-Day Year (4)	Interest Calculation Days (5)	Interest Calculation Amount (6)
June 1928	Property Suspense Account	$128,062.45	$21.0514	15	$315.77
June 1928	Incomplete Wells, Account 103	51,243.27	8.4236	15	126.35
	Total				$442.12

On cross-examination Commission Witness Luttring testified: (Vol. XXXVIII; pp. 5167-5258.)

By Mr. Spencer:

Q. Mr. Luttring, I didn't hear your direct testimony with respect to Exhibit No. 146, but I understand you testified that you first became employed by the Federal Power Commission on May 1, 1939.

A. That is correct.

Q. And since that time you have devoted practically all of your time to matters involved in these proceedings except for about four months?

A. That is correct.

Q. When you first came with the Commission, what was the first thing you undertook?

A. The very first thing I undertook was the examination of Canadian River Gas Company in accordance with instructions which we got from Washington.

Q. All right, I'll come back to that in a minute. I understood you also testified that you had had no previous experience or employment with companies engaged in the producing and transporting and distributing of natural gas?

A. I was Treasurer of Central States Edison Company. We did have some small natural gas companies.

Q. Have you testified about that before? I don't want to cover the ground twice here.

A. No, I haven't.

Q. Go ahead, then.

A. We did have two small natural gas companies. There was some production. There was a small amount of transmission and distribution.

Q. Now, the name of the parent company was what?

A. Central States Edison Company.

Q. Where is that located?

A. That is now in Jersey City, New Jersey.

Q. At what time were you employed by that company?

A. 1927 until 1935.

Q. 1935—it is a holding company?

A. It is a holding company.

Q. Does it also operate?

A. No, sir, strictly a holding company.

Q. Strictly a holding company, and what is the character

of the corporations in which it owns stocks? I mean the nature of their operations and business.

A. It serves electricity, water, natural gas and manufactured gas.

Q. Now, coming specifically to those subsidiaries of the parent company that were engaged in the producing, transporting or distribution of natural gas, what was the name of the first company you mentioned?

A. I didn't mention any, but Sedan Gas Company.

Q. Located where?

A. Sedan, Kansas.

Q. Engaged in what nature of business?

A. Natural gas production and distribution. The transmission—or, rather, the field was right near the town so that the transmission was only of a very short distance.

Q. What is the population of Sedan, Kansas?

A. Well, it is in the neighborhood of 2500.

Q. A relatively small operation?

A. That's right.

Q. What did you have to do for that particular company?

A. I had supervision of all the accounting records and financial matters and devising any records necessary to get the operating results of that company.

Q. When you say you had supervision, do you mean that somebody else kept the books and records, someone else did the auditing, but as treasurer of the corporation, all of those functions were under your department?

A. That is right.

Q. You didn't audit the books of the Sedan Gas Company?

A. I did.

Q. You audited them personally?

A. Not all the time, but I have audited them.

Q. Was your experience with the Sedan company confined to the books and records of account of the company or did you get over into the field of operations?

A. I only got into the field of operations through, you might say, emergencies. In case some of the officials of the company were absent from the office, I would be given instructions as to what to do.

Q. During the seven years you were employed by the parent company, how much of that time would you say was

devoted to the business of Sedan Gas Company? I don't mean days and hours—

A. I'll put it in this way: Only in proportion that the size of the gas company was to the rest of our picture.

Q. What was the proportion?

A. I'd say probably five per cent.

Q. And was there another subsidiary engaged in the natural gas business?

A. We also had one in Collinsville, Skiatook and Sperry, Oklahoma.

Q. What was the name of that company?

A. Sperry Gas Company, Collinsville Gas Company and Skiatook Gas Company.

Q. Oh, three of them?

A. They operated in those respective three towns.

Q. Did they also get their natural gas from fields within the vicinity—

A. Fields adjacent to those towns.

Q. That's right. They are also small gas operations?

A. That is right.

Q. Smaller towns than Sedan, is that correct?

A. I think Collinsville, if I remember correctly, is about the size of Sedan.

Q. Was your relationship and experience with those companies about the same as you have outlined for the Sedan Gas Company?

A. That is right.

Q. Would you say that your experience with these four companies qualified you in any respect with respect to the operating end of the natural gas business?

A. No, sir.

Q. Are there any other connections or affiliations you had with the companies engaged in the natural gas business?

A. That is all the natural gas that we had in our company.

Q. And you had no experience in the natural gas business with any other employer?

A. No, sir.

Q. Immediately preceding your employment by the Commission, where were you employed?

A. Arthur Anderson & Company, Certified Public Accountants, Chicago.

Q. I guess you have already testified to that.

Now, you said a while ago when you first came with the Commission you received an assignment to do certain work in connection with the books and records of account of Canadian River Gas Company?

A. That is right.

Q. And that in that connection there were certain instructions received from Washington?

A. That is right.

Q. Written or oral instructions?

A. Written instructions.

Q. Do you have a copy of them?

A. I do not have them with me. I can get them.

Q. I wish you would get those instructions, please. Will you do that?

A. Yes, I will.

Q. And in the meantime, just briefly tell me what the instructions were so we can go ahead.

A. Well, the instructions, briefly, covered an investigation of Canadian River Gas Company and Colorado Interstate Gas Company for the purpose of ascertaining the original cost of the investment in gas plant of those companies and determining the proper income for a number of years of those companies.

In the investigation of the plant account we were instructed to commence with the inception of the company.

Q. Meaning Canadian River Gas Company and Colorado Interstate Gas Company?

A. That is right.

Q. Have you finished?

A. Yes.

Q. Were those instructions general instructions to this regional office in Denver or were they specific instructions to you or to some other employe of the Commission?

A. They were instructions given to the regional office, and copies of those instructions were furnished to the various men interested in the investigation.

Q. I take it that so far as you were concerned, the primary purpose of the investigation and the instructions pertaining thereto was to arrive at proper original cost of the plants of these two companies, is that correct?

A. That is true. That is what I would do in any investigation of that type.

Q. ~~Now, did your~~ instructions give you a definition of original cost?

A. I don't think they do, but my accounting experience has taught me what it is.

Q. Well, now, you teach me, then, and tell me what ~~orig~~inal cost is, if you please.

A. On Page 5 of the Uniform System of Accounts prescribed for natural gas companies—

Q. Just a minute, please. All right, proceed.

A. Page 5, Definition No. 29: "Original cost as applied to gas plant means the cost of such property to the person devoting it to public service."

Q. May I interrupt you there?

A. Yes, sir.

Q. You have read to me a definition of the Commission, not your own definition, is that correct?

A. My definition would be the same thing.

Q. And is this the definition that you have applied to your work in Exhibit No. 146, Mr. Luttring?

A. That is the definition on which I based my work. The term "original cost" is primarily used in connection with acquistions of properties. The company's own construction cost is original cost. That is the distinction between the term as used here.

Q. In other words, we might have two original costs?

A. That is true, and still be—

Q. And what you are looking for is the first one?

A. That is true, we are looking for the first cost. We are looking for the first cost in order to get the correct depreciation base.

Q. Is that the only purpose?

A. That is the chief purpose.

Q. What other purpose would there be?

A. There will be in an arm's length deal a cost in addition to your first cost, which probably makes up your original cost. Now, that cost is placed into Account 100.5 which you will find on Page 17 of this classification of accounts.

Q. Yes.

A. Do you wish me to read that in to the record?

Q. I think it is sufficient just to refer to it.

A. I want to bring out that this so-called intangible or cost in addition to the structural cost—

Q. I want you to go right ahead and do whatever necessary to make your answer complete.

A. On Page 17 of the Uniform System of Accounts prescribed for natural gas companies, Account No. 100.5: "Gas Plant Acquisition Adjustments;

"(A) This account shall include the difference between (a) the cost to the accounting utility of gas plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost, estimated if not known, of such property, less the amount or amounts which may be credited to the depreciation and amortization and depletion reserves of the accounting utility at the time of acquisition with respect to such property. The account shall be so subdivided, when practicable, as to show the amounts applicable to gas plant in service, gas plant leased to others, and gas plant held for future use."

Now, in that account as shown there, is to be entered any amount which is in excess of the so-called first cost and that amount will be disposed of as the Commission may approve or direct.

Q. Well, we can come to that a little later when we get into the detail of your exhibit.

A. All right.

Q. Now, still on this subject of original cost, some place in your statement here you have used the expression, I believe, "legitimate original cost:" Is that a different kind of original cost than is defined on Page 5?

A. No, and if it serves our purpose for discussion any better, I think we could just as well use the word "proper." In other words, in a plant account we have included only costs which we deem proper.

Q. Well, if you are going to follow this definition that has just been read into the record, why do you need any adjective to qualify the original cost?

A. We don't. The term is used in the Natural Gas Act itself and that is the only reason I can see for using it in our text or in our work.

Q. I see. Any original cost that would comply with the

definition you have read into the record would be proper and it would also be legitimate?

A. That is right.

Q. And the use of the word "legitimate" or "proper" would have no special significance in your statement?

A. None other than what I have just explained.

Q. You stated that a part of your instructions covered investigation of the proper income of these companies, or perhaps I didn't quite get it clear what you meant.

A. That is correct.

Q. In discussing proper income, will you please go into that in a little more detail?

A. I might say this, that I did not take part in the compilation of the net income for the companies—

Q. It is not covered by this exhibit?

A. That is right. If it—

Q. You don't need to answer it, then. It had nothing to do with this exhibit or the preparation of it?

A. No, sir.

Q. Oh, there is one other thing I wanted to ask about. What is your understanding of the phrase "devoted to public service?"

A. We—

Q. Let me finish. When would you say that the property is first devoted to the public service?

A. That phrase applies only to companies who were never under the jurisdiction of any regulatory body. It may be a situation where such companies do sell their properties to someone who is serving the public. They are very much in a minority.

Q. Let's forget the company for a moment. Let's think about the property itself, "the property itself being devoted to the public service," what does that mean to you?

A. Any property

Mr. Lange: Of course, Mr. Examiner, the witness can state what use is made of the property, what its functional use is, and then as to whether or not such property is devoted to the public service as contemplated by the Act would be a matter for the reviewing authorities to determine. He can explain in detail as to what use that property is put to, what its function is, but it strikes me that when you go one

step further and say as to whether or not that is devoted to the public service, that is a conclusion, a legal conclusion.

Mr. Spencer: Mr. Examiner, he has participated in the compilation of a very extensive study here for the purpose of determining original cost of our properties. As the result of his investigation he has made some very substantial adjustments in arriving at the original cost of the properties of the Canadian River Gas Company; he has said that he followed the definition of the Commission with respect to original cost. That definition states very clearly "original cost as applied to gas plant means the cost of such property to the person first devoting it to a public service."

Now, if he is going to make adjustments here in our original cost figures he must at some point determine when a property is devoted to the public service, and in a very preliminary way I would like to know what the phrase means to him because he had to use it or he couldn't have arrived at these computations.

The Trial Examiner: I understand that Mr. Lange specifically objected to the type of the question.

Mr. Lange: I objected to the last part of the question as being purely a conclusion. Whatever the sum and substance is as to whether it is devoted to the public use or not is a legal conclusion.

The Trial Examiner: I think the witness can state his understanding.

The Witness: The phrase "property first devoted to the public service" did not apply to any of our instances in relation to the respondent companies. I explained before that that in order to come under that phrase it must be a company that was not under any regulatory body at all.

By Mr. Spencer:

Q. I am not clear, Mr. Luttring, and I may be a little dense as to why the phrase doesn't apply to our situation.

A. All right, we may have a company who hasn't had any dealings at all with the public. Its product was sold entirely, we will say, to some particular industry. Now, for some reason or other that industry, or, rather, that gas—

we will say that project discontinues doing business with this industry and then starts to serve the public.

Q. Did I understand you to say that up to the time these properties were transferred to Canadian River Gas Company the predecessor companies had not been subject to regulation and the properties were not devoted to a public use?

Mr. Lange: Wait a minute. Please repeat that question, Mr. Reporter.

(The record referred to was read by the reporter as set forth above.)

Mr. Lange: That, of course, Mr. Examiner, brings into the picture a purely legal conclusion and goes right back again to the use that the particular properties have been put to, the functions of them, the character and use made of them.

The Trial Examiner: Well, I think perhaps that is true, Mr. Lange, however, the Examiner is going to be very liberal in this cross examination. The Examiner heretofore has been very liberal with cross examination by Commission's counsel and I think we would progress a lot faster if these objections were, I might say, limited to really serious matters. I can't see that a question of that nature—

Mr. Lange: As to whether this witness would know what the statutes of a particular state were that applied—

The Trial Examiner: He stated—

Mr. Spencer: That they did not apply.

The Trial Examiner: The witness so stated. I don't naturally think that the witness should be examined on matters of a legal nature; however, the witness made a direct response, I believe, to a former question which resulted in the last question of Mr. Spencer.

Mr. Spencer, has he answered the last question?

Mr. Spencer: I asked the question and I don't believe it has been answered.

The Witness: It will have to be restated.

(The question referred to was read by the reporter, as follows:

"Q. Did I understand you to say that up to the time these properties were transferred to Canadian River Gas Company the predecessor companies had not been subject to regulation and the properties were not devoted to a public use?")

The Trial Examiner: Mr. Reporter, go back to the previous question and answer—

The Witness: I don't know how to answer this question here. There are too many parts to it.

The Trial Examiner: Let's go back—do you want to restate the question, Mr. Spencer?

Mr. Spencer: No, I don't want to change the question.

The Trial Examiner: Let's go back, Mr. Reporter, to several of Mr. Spencer's questions prior to this last question and Mr. Luttring's answer.

(The record referred to was read by the reporter as follows:

"Q. I am not clear, Mr. Luttring, and I may be a little dense as to why the phrase doesn't apply to our situation.

"A. All right, we may have a company who hasn't had any dealings at all with the public. Its product was sold entirely we will say, to some particular industry. Now for some reason or other that industry, or, rather, that gas—we will say that project discontinues doing business with this industry and then starts to serve the public.

"Q. Did I understand you to say that up to the time these properties were transferred to Canadian River Gas Company the predecessor companies had not been subject to regulation and the properties were not devoted to a public use?")

Mr. Lange: Of course, that question includes several different statements. If it is admissible at all, it certainly should be required to be broken down into separate parts. I still think that the objection is good, but even if the Examiner holds it is admissible, it ought to be broken down

The Trial Examiner: I think the question is absolutely predicated on a statement made by the witness. Now the

witness will be afforded ample opportunity to explain what he meant.

The Witness: Well, as to being under the jurisdiction of any regulatory body, I don't know, but I do know that the predecessor companies whose properties were transferred or acquired by Canadian River Gas Company were devoted to public use. That information I could get through the income account.

Mr. Spencer: Will you read that last answer, please— Had you finished the answer?

The Witness: Yes.

Mr. Spencer: Will you read that last answer, please?

(The answer referred to was read by the reporter, as follows:

"A. Well, as to being under the jurisdiction of any regulatory body, I don't know, but I do know that the predecessor companies whose properties were transferred or acquired by Canadian River Gas Company were devoted to public use. That information I could get through the income account."

By Mr. Spencer:

Q. How many predecessor companies do we have, Mr. Luttring, that are involved in these adjustments that you made or recommended, and will you just name them?

A. Amarillo Oil Company, Mission Oil Company, Mountain States Gas Company—Master Oil & Gas Company—that is all I can recollect right now.

Q. Do you go back and get original cost of properties of Producers and Refiners Corporation in this study?

A. Yes. In the case of Mountain States Gas Company it was necessary to refer back to the records of Producers & Refiners Corporation. Such records were located in New York City.

Q. Should that company's name be added to this list?

A. No, I don't think so.

Q. Will you go back and get the original cost of any individuals, or partnerships?

A. Yes. A. R. Jones—

Q. And associates?

A. A. R. Jones and Associates.

Q. That is all right.

Should A. R. Jones and Associates be added to this list?

A. Yes, that should be.

Q. I think that is all of them as I recollect, Mr. Luttring. Now—

The Trial Examiner: Mr. Luttring, I am not just clear on this Producers & Refiners Corporation. I believe you stated that you would go back and ascertain the original cost. Did you mean that? Then you mentioned some other company.

The Witness: Well, Mountain States Gas Company is the successor whose books I actually examined.

The Trial Examiner: That is, the successor company of Producers & Refiners Corporation?

The Witness: Yes, it is a successor of Producers & Refiners Corporation; to the extent of certain assets that were transferred to it, it was the Producers & Refiners Corporation.

By Mr. Spencer:

Q. You mean it is a successor to Producers & Refiners Corporation. Instead of that you mean it is a successor?

A. I think you are right.

Q. And probably the reason that you haven't included Producers & Refiners Corporation—we will come to that later—is that the original cost to Mountain States Gas Company and Producers & Refiners Corporation are substantially identical?

A. It was one and the same thing, yes. If I remember correctly, the records of Mountain States Gas Company should have been reflected on their own books but Producers & Refiners Corporation handled all of the financial matters for Mountain States Gas Company and therefore had the original records in their files.

Mr. Spencer: Mr. Examiner, did you have any further questions?

The Trial Examiner: I think that is clear now.

By Mr. Spencer:

Q. Now, going back to the answer that I asked to have read and reread a while ago, do I understand you to say that certain of these properties which finally found their way into Canadian River Gas Company were owned and operated by A. R. Jones and Associates?

A. That is correct.

Q. They were devoted to a public use?

A. That is correct.

Q. Now, in what manner were the properties devoted to a public use by A. R. Jones and Associates?

A. The gas that was produced from those wells was sold to consumers in the town of Amarillo, Texas.

Q. At the time A. R. Jones owned it?

A. Yes, sir.

Q. We will come back to that a little later. I guess perhaps it would be a little more orderly to take up each one as we come to it.

I understand, Mr. Luttring, there are forty-eight adjusting entries given on Pages 1 to 58, inclusive, of Exhibit No. 146, is that correct?

A. Did you say 48?

Q. Yes, I take that out of your statement.

A. Oh, yes, adjusting entries, that is right.

Q. And those adjusting entries commence on Page 1 with the Entry 200?

A. That is correct.

Mr. Spencer: Mr. Examiner, I should have said Page 1 of the contents.

Q. Which one of those entries starting with 200 are you responsible for, Mr. Luttring?

A. I am responsible for all entries from 200 to 219, inclusive.

Q. I am just trying to understand this. Would that be nineteen entries out of the total of forty-eight that you are responsible for?

A. That is right. Some of my work is indirectly reflected in other parts of this report but we have subdivided it for convenience between Mr. Teel and myself.

Q. Let's turn to Page 1 of Exhibit No. 146 which deals with your adjusting Entry No. 200. You have a detailed

explanation of this entry here. Can you tell the Examiner in a few words what the entry is about? Then we will go further into the details of it.

A. The entry covers purchase by Canadian River Gas Company of certain wells and leases from Master Oil & Gas Company. In the purchase price I considered there was an element of profit because of the transactions not being at arm's length. That profit which I determined was removed from the cost of operated leases and charged to gas plant adjustment account.

The Trial Examiner: That is in the sum of $121,086.50?

The Witness: That is in the sum of $121,086.50.

By Mr. Spencer:

Q. In other words, you went back and found out what in your opinion constituted the original cost of these leases to Master Oil & Gas Company and found that the price received by Master Oil & Gas Company from Canadian River Gas Company was in excess of that cost by $121,000 plus?

A. That is correct.

Q. Well, now, what two leases do we have involved here? Let's start with leases.

A. The Masterson M-1 and Sneed—or, rather, Masterson M and Sneed B leases.

Q. Masterson M and Sneed B?

A. Yes. The number in each case is 86.

Q. The number in each case is 86?

A. Yes.

Q. Is that the Canadian River lease number?

A. That is Canadian River Gas Company lease number.

Q. And whose letter prefixes are "M" and "B"?

A. Canadian River Gas Company.

Q. We'll start with Masterson M. When was that lease originally issued?

A. Well, I don't know when the original lease was issued.

Q. Well, don't you think we ought to follow this lease back? We might find some other transactions where there would be absence of arm's length dealings. I don't mean carried back to the Indians, but we ought to go back to the initial lease or at least it seems to me follow it up and see what happened to it.

A. The records prior to the incorporation of Master Oil & Gas Company were not available. Now, the lease to which you refer had a well drilled on it about 1920 and was shut in and any cost related to that well was not reflected on the books of Master Oil & Gas Company until about 1926.

Q. Well, let's not get down to that point just yet. I'm trying to find out if you know to whom the lease was originally issued and when.

A. You mean the very original lease?

Q. Certainly, the original lease.

A. Well, I don't know.

Q. That is a matter of record in the County Clerk's office of Potter County, State of Texas?

A. I might add that—

Q. Wait a minute. All right, go ahead. Excuse me. Go ahead.

A. I might add that our Bureau of Engineering had the responsibility of examining the leases.

Q. As a matter of fact, I guess the lease is in Moore County and not Potter County, is that correct?

A. The lease is in Moore County.

Q. Well, when did—strike that.

Well, do you know who was the predecessor in interest so far as this lease is concerned of Master Oil & Gas Company?

A. Well, the predecessor of Master Oil & Gas Company was, as I recall it, a form of beneficial trust.

Q. I think that is correct, Mr. Luttring, and do you know the nature of that trust and who the beneficiaries were?

A. Well, I believe Shamrock Oil was one of them. I'm not positive about that, but the records I believe did indicate who the beneficial owners were.

Q. Did the trust—we'll call it the trust—get this lease or these leases from the original lessor?

A. Well, I'll have to answer the same way I did previously because I didn't examine the leases.

Q. And do you know what the trust paid to the original lessors for the predecessor's interest in the leases?

A. The records that were made available to me didn't indicate those costs.

Q. Whose records are you referring to now?

A. This beneficial trust and Master Oil & Gas Company.

Q. Did you see any records of the trust itself?

A. There were some records; yes.

Q. But no records which showed—

A. No records that I would consider dependable.

Q. No records you considered dependable?

A. No, sir.

Q. So you don't know what sums, if any, were paid by the trust or the beneficiaries of the trust for the assignment of the leases in the first instance?

A. No, sir.

Q. Well, how did the oil and gas company come into being, then? How did that happen?

A. I think it is pretty well stated in the explanation here, isn't it?

Q. I think that is enough so far as it goes, but who were the incorporators?

A. Who were they?

Q. Yes.

A. I can get it from my papers.

Q. Well, look that up for me, will you please, and as you state here, the Master Oil & Gas Company was incorporated May 4th, 1921. When did they acquire the Masterson M lease?

A. I considered they acquired the Masterson M Lease as of June 1st, 1926, the date in which Master Oil & Gas Company first made a payment for that lease.

Q. June 1st, 1926?

A. June 1st, 1926.

Q. Is that the date of the assignment of the lease to Master Oil & Gas Company?

A. That is the date—I don't think it was an assignment. I think it was a new lease.

Q. Do you think it was a new lease?

A. Yes. I'll look up the fact, if you so desire.

Q. In order to get the new lease they had to do something about the old lease, which was done, is that so?

A. Yes.

Q. You made no particular effort, shall I say, to go back and find out what the costs of this Masterson M lease might have been to the predecessors of Master Oil & Gas Company?

A. I made an effort, but the records, as I stated previously, were very unreliable; so I accepted the inventory of the gas wells and intangible costs which Master Oil & Gas Company reflected on its books for the well. That was on the Masterson 86-M lease and formerly owned by its beneficial trust.

Q. Well, that figure you take was an appraisal, was it not?

A. I deemed that the cost they set up was reasonable in the light of the experience which I had on other gas companies.

Q. No, but the figure you got was an appraisal, it wasn't an original cost. Am I not correct?

A. Strictly, yes.

Q. All right. And it doesn't conform to this definition here: "Original cost as applied to Gas Plant means the cost of such property to the person first devoting it to public service."

A. I deemed the amount set up on Master Oil & Gas Company fair and reasonable from the best available records that were presented to me.

Q. But it was not an original cost figure?

A. It is not original cost.

Q. All right, now, you assumed that this property became the property of Master Oil & Gas Company June 1, 1926 because that was the date on which they made some payment, is that correct?

A. That is the date on which they paid a bonus to R. B. Masterson and J. T. Sneed. It was a combination lease, I believe.

Q. But, now we're speaking of Masterson M. There was a well on the lease at that time, was there not?

A. Yes, that is the well that I have been talking about.

Q. Yes. There was a well on it. Did you know when that well was drilled?

A. The record indicated the well was drilled in 1920.

Q. Well, then, after they drilled the well what did they do with it?

A. They shut it in.

Q. And it was shut in how long?

A. It was shut in until acquired by Canadian River Gas Company.

Q. Now, that was when?

A. Canadian River Gas Company acquired it in the latter part of 1928.

Q. Now, all the time the well was shut in from 1920 to 1928, do I gather from your previous testimony that the well was devoted to public use?

A. No, sir.

Q. Who is the original lessee of the Sneed B lease, do you know that?

A. I do not.

Q. Nor the date of the original lease?

A. No, sir.

Q. This Sneed B lease was likewise at one time the property of this beneficial trust that you mentioned?

A. I am not positive about that.

Q. Who were these people in this beneficial trust? Did I ask you that before?

A. Yes, you did.

Q. You don't know that. From whom did Master Oil & Gas Company acquire the Sneed B lease?

A. From J. T. Sneed on June 1st, 1926.

Q. The same date?

A. That's right.

Q. And you fixed that date at that time because Master Oil & Gas Company then paid a bonus to Masterson and Sneed for the purpose of getting a new lease and wiping out the possible defaults, and so forth, is that correct?

A. The results indicated there was considerable confusion as to the rights of the persons interested in that property. The outcome of it was that R. B. Masterson and J. T. Sneed granted a lease to Master Oil & Gas Company on June 1st, 1926 which seemed to straighten out that whole affair.

Q. Do you know that Mr. Masterson and Mr. Sneed were members of the syndicate or members of the beneficial trust?

A. I don't know, but Masterson was a stockholder, I am sure, in Master Oil & Gas Company.

Q. Do you know the significance of the name "Master Oil & Gas Company"?

A. Well, I imagine it has some relation.

Q. Was there a well on the Sneed B lease?

A. There wasn't any well on Sneed B lease.

Q. When it was—

A. When it was first acquired by Master Oil & Gas Company.

Q. All right, now, we come down to June 1st, 1926, and you at that point set up what you term original cost for the first time on Master Oil & Gas Company; is that correct?

A. That is right.

Q. And then you pick off the books and records of Master Oil & Gas Company an appraisal of the well on the Masterson M, an appraisal in the form of a well account with inventory?

A. That is right.

Q. And you find that reasonable and you add that to the bonus payments that you previously allow?

A. That's right, as shown on Page 1 of this journal entry.

Q. Oh, that's right, and you also allow certain rentals that were paid from time to time?

A. That's right.

Q. Sneed B lease had a well completed on it in October of 1927?

A. That is correct.

Q. And what do you allow for original cost of that well?

A. I allow $42,660.35.

Q. That's the two items at the bottom of Page 1 under the debit column?

A. That's right.

Q. Now, is that the cost as reflected on the books of Master Oil & Gas Company?

A. That is correct.

Q. You made no adjustment in that figure?

A. No, sir. In fact, I don't think you'll find any adjustments whatever in these figures.

Q. I don't believe they are, Mr. Luttring.

A. No they are the same as they appear on the books of Master Oil & Gas Company with the exception of probably some intangibles they had on their books which aren't reflected in here.

Q. All right, let's talk about those intangibles. What are those intangibles?

A. I'm not concerned with them.

Q. What was that?

A. I wasn't concerned with them. I have them in my papers.

Q. What they were? Well, let's go at this a little differently. Are these two leases all the properties and assets of the Master Oil & Gas Company?

A. Those are the only assets which they sold to Canadian River Gas Company.

Q. Well, going back to my question, did these two leases constitute all of the assets and properties of Master Oil & Gas Company?

A. From original cost—

Q. I'll help you. At the time of the transfer to Canadian River Gas Company and for quite a period prior to that time.

A. Well, I'll put it this way: It is not all the assets reflected on the books of Master Oil & Gas Company but it was the only assets with which I was concerned in this proceeding.

Q. Well, have you got in your working papers what the other assets were?

A. Yes, I have.

Q. And what the intangibles were?

A. Yes, I have a complete transcript of the accounts from the time the company started until it dissolved.

Q. Well, if you bring that back with you, please, I'd like to examine that.

The Trial Examiner: Do you have that with you this morning, Mr. Luttring?

The Witness: Yes, we have it here in the trunk.

Mr. Spencer: Well, we can get it out after while.

Mr. Lange: Do you wish to have it now, Mr. Spencer?

Mr. Spencer: No, not right now.

Q. This well on the Sneed lease, completed in October of 1927, when was the first gas sold from that well?

A. Well, I can give you the information but somebody else has prepared it.

Q. Well, isn't it a fact that—

A. I'll say I can't say that—the gas was produced sometime near or shortly after it was acquired by Canadian River Gas Company.

Q. I think that is correct. Do you know if it is a fact that the Master Oil & Gas Company never produced any gas from the well?

A. Yes, I do. I might add that that is my reason for treating rentals as a part of the original cost.

Q. In this instance?

A. I beg your pardon?

Q. In this instance?

A. In this instance.

Q. What would you say was the nature of the business of Master Oil & Gas Company?

A. I don't have a copy of the charter.

Q. No, but as you have investigated it from its records and studied it.

A. Personally I wasn't able to determine just—

Q. Well, they held oil and gas leases, didn't they?

A. Only in this instance.

Q. Well, wouldn't that be a part of their business?

A. Well, I just can't say what the character of their business would be when a company drills a well and then shuts it in for a period of five years or longer and drills another well and it still doesn't sell any of the gas.

Q. I can see your difficulty. Well, it wasn't a very active company?

A. There may have been some intent, but I wasn't able to determine what that is.

Q. As far as the books reflect, it had no activities except in connection with these oil and gas leases in the Texas Panhandle field, is that true?

A. That is true.

Q. And that's about the only business they had and they weren't very active at that time, is that correct?

A. That is all the business they had.

Q. All of it. All right. Now, when did the Prairie Oil & Gas Company first acquire an interest in the Master Oil & Gas Company?

A. I didn't get your question.

Q. When did the Prairie Oil and Gas Company first acquire a stock interest in the Master Oil & Gas Company?

A. In 1925 Prairie Oil & Gas Company acquired an interest in Master Oil & Gas Company.

Q. And do you know the circumstances under which it acquired such interest?

A. None other than if you are relating to Shamrock Oil Company.

Q. Yes, that's right. Well, I'll ask you this: Was not this stock acquired from Prairie Oil & Gas Company through Shamrock Oil & Gas Company along with a lot of other—

A. Along with a lot of other assets and securities, probably of one kind or another.

Q. This was just one of a number of things that the Prairie Oil & Gas Company got at that time from Shamrock, is that right?

A. That's the way I understand the transaction.

Q. And that was in 1925. When do the records indicate that the Prairie first commenced taking any interest in the Master Oil & Gas Company business?

A. In July 1926 Prairie Oil & Gas Company made a proposal to Master Oil & Gas Company.

Q. What was the nature of that proposal?

A. On Page 2 of Journal Entry No. 200, at the bottom of the page, there is:

"(a) Furnish funds for the benefit of Master Oil & Gas Company for the payment of delinquent franchise taxes due the State of Texas for the years ended April 30th from 1923 to 1927.

"(b) R. B. Masterson and J. T. Sneed to execute and deliver, in form acceptable to Prairie Oil & Gas Company leases on land in Potter County, Texas, for a term of ten years from June 1st, 1926.

"(c) Well to be drilled on land leased from J. T. Sneed free of cost to Master Oil & Gas Company and its stockholders.

"(d) In consideration of the proposition, Master Oil & Gas Company and its stockholders were to transfer to Prairie Oil & Gas Company a sufficient amount of stock of Master Oil & Gas Company which with the (25) per cent then owned would vest ownership and control of (51) per

cent of the stock of Master Oil & Gas Company in Prairie Oil & Gas Company."

Q. That is stated there in the form of a proposal. That was carried out substantially in accordance with the terms of the proposal?

A. Yes, sir.

Q. Prairie did drill the well?

A. I beg your pardon?

Q. Prairie did drill the well?

A. Yes, they did.

Q. That is the well that was completed in October of 1927?

A. That is the correct date.

Q. At that time we find that the Master Oil & Gas Company with two wells shut in and no market, the stockholders commenced considering ways and means of selling these properties, is that right?

A. I imagine that is the way it is usually done.

Q. Did you read the minutes of the Master Oil & Gas Company?

A. I am pretty sure I did.

Q. Now, the Master Oil & Gas Company made a proposal to Canadian River Gas Company to sell these properties for a certain sum, is that correct?

A. That is correct.

Q. Was that in writing, do you know, Mr. Luttring? Have you got it in here?

A. I have it in my papers. If I remember correctly, the proposal was first made to Amarillo Oil Company; that is, acting as agent for Canadian River Gas Company.

Q. Let's see if I have it. I don't seem to have it. Do you know how the price was arrived at? Oh, first let me ask you: What was the price offered?

A. Well, briefly, the proposal offered the leases, including the wells, at a price based at a certain number of dollars per acre plus rentals from the last rental payment date.

Q. Do you know what the price was per acre that was agreed upon?

A. If I'm not mistaken, I think it's $25.

Q. How many acres did you have involved?

A. About fifty-four hundred—five thousand, four hundred and four and two-tenths acres.

Q. What did they allow for the wells, or were they put in at cost?

A. The price, as I stated, was included in that figure which was determined on a certain number of acres, I believe, times the acreage price.

Q. Do I understand that the wells were included with the acreage at the $25 per acre figure?

A. Yes.

Q. When you say "$25 per acre," you mean $25 per acre without further cost for the two completed wells, is that correct?

A. Well, I'll have to refer to my papers. I can get it in short order.

Mr. Spencer: Well, suppose, Mr. Examiner, if you don't mind, I'd like to recess at this time. Mr. Luttring can get those papers during the recess and we can start again after lunch.

Mr. Lange: Yes, it is agreeable with us.

The Trial Examiner: Would you like to have a little extra time through the luncheon?

Mr. Spencer: Well, I have already asked for so many favors, I don't like to ask for any more. I would appreciate the time.

The Trial Examiner: Well, if it would expedite your cross examination and be of any assistance to you—

Mr. Spencer: I believe it would.

The Trial Examiner: I beg your pardon, Mr. Spencer?

Mr. Spencer: I believe it would, Mr. Examiner.

The Trial Examiner: I'll be glad to take this twenty minutes additional time during the noon recess. I'll be very liberal there.

We will stand in recess until 2:00 o'clock.

(Whereupon, at 12:12 o'clock p. m., a recess was taken until 2:00 o'clock, p. m., of the same day.)

Afternoon Session, 2:00 P. M.

The Trial Examiner: The hearing will be in order.

Whereupon—

Carl E. Luttring, the witness on the stand at the time of recess having been previously duly sworn, resumed the stand and testified further as follows:

Mr. Lange: Mr. Examiner, let the record reflect that Mr. Luttring, the witness, has supplied to Mr. Spencer a copy of the general instructions.

The Trial Examiner: Which were requested this morning by Mr. Spencer?

Mr. Spencer: That is correct, Mr. Examiner.

Cross Examination (Continued.)

By Mr. Spencer:

Q. Mr. Luttring, I hand you a copy of a letter addressed to Mr. Harold Tomlin, Examiner in charge, Federal Power Commission, Denver, Colorado under date of April 12, 1939, by Mr. Charles W. Smith, Chief, Bureau of Accounts, Finance and Rates, Federal Power Commission, Washington, D. C., together with certain data attached thereto, and I will ask you if that is a copy of the instructions to which you referred this morning?

A. That is the copy. I might add that that is the copy that was furnished me at the time I started the investigation. It was abstracted from my files during the recess.

Mr. Spencer: Mr. Examiner, I do not know just what use we will desire to make of this document. I would like to ask Commission's counsel if we could obtain a copy of this letter or if this letter could be loaned to us so that we could have a copy of it made.

Mr. Lange: That is agreeable.

Mr. Spencer: Which do you prefer?

Mr. Lange: You can have a copy of it made if you so desire.

The Trial Examiner: Very well.

By Mr. Spencer:

Q. I believe I asked you this morning, Mr. Luttring, if you knew who the incorporators of Master Oil & Gas Company were. Will you look at your working papers and see if you can find the answer to that question now.

A. The original incorporators of Master Oil & Gas Company as they were found by me were R. B. Masterson, C. E. Weymouth, and L. A. Wells.

Q. Are those working papers papers that disclose the authorized capital stock of Master Oil & Gas Company?

A. Yes, they do. The papers state that the original capital of Master Oil & Gas Company was $300,000 divided into 6,000 shares of $50 each.

Q. Do you know the state of incorporation of that Master Oil & Gas Company?

A. It was incorporated in the State of Texas.

Q. Do you have before you a copy of a proposal made by Amarillo Oil Company to acquire the leases of Master Oil & Gas Company that was covered by your Adjusting Entry No. 200 in Exhibit No. 146?

A. I do.

Mr. Spencer: Mr. Examiner, this letter isn't very long. It would suit my purposes if it could be read by the witness rather than to have an exhibit made of it.

Mr. Lange: That is all right with us.

By Mr. Spencer:

Q. Will you read that letter into the record—first let me ask you this: Where did you obtain the letter?

A. I obtained the letter from the files of Master Oil & Gas Company located at Independence, Kansas.

Q. Will you read the letter into the record, starting with the heading?

A. "Amarillo Oil Company, Amarillo, Texas.

"September 14, 1928.

"Master Oil & Gas Company,
Amarillo, Texas.

"Gentlemen:

"Confirming the proposal and offer heretofore that was made the Amarillo Oil Company is desirous of purchasing

the oil and gas leases and lands of the Master Oil & Gas Company, together with personal property situated thereon or used in connection therewith and all rights, privileges and franchises of the Master Oil & Gas Company appertaining thereto, for which the Amarillo Oil Company is willing to pay the sum of $229,650 upon the approval and acceptance of title by its attorneys and the execution of assignments to it covering said leases, lands and properties upon forms prepared and approved by its attorneys. It being understood that should the title of the Master Oil & Gas Company fail or be defective as to any of such acreage and prove unacceptable to its attorneys, the Master Oil & Gas Company will have a reasonable time within which to cure such defects. Should it be impossible to cure such defects, then there shall be deducted from the consideration aforesaid an amount equal to $25 per acre for the acreage included in such defective title.

"It is understood that the total *lesses* and lands owned by the Master Oil & Gas Company is approximately 5364.2 acres. In addition to the consideration above mentioned, the Amarillo Oil Company agrees to reimburse the Master Oil & Gas Company for rental payments made by it upon accepted acreage since the original offer to purchase said acreage, made on April 12, 1928.

"It is also understood that your company has arranged to call a stockholders' and directors meeting for the purpose of considering this offer and acting thereon.

"Yours very truly,

AMARILLO OIL COMPANY,
By R. A. FORD,
Assistant Secretary-Treasurer."

Q. Do you know when Canadian River Gas Company was incorporated?

A. I think the date is already in the record in previous testimony.

Q. If I should tell you it was incorporated in February 1928, would that sound right?

A. That sounds approximately correct.

Q. The date of that letter is what?

A. September 14, 1928.

Q. Did the Canadian River Gas Company take over this proposal on substantially the terms that were set forth in this letter?

A. They took them over at exactly the terms stated in this letter.

Q. Do the records indicate to you that the Amarillo Oil Company in this transaction was acting as an agent or for the account of Canadian River Gas Company?

A. Will you read that, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: They do not.

By Mr. Spencer:

Q. And why?

A. The examination which I made of Amarillo Oil Company's books informed me that the transaction went through their books for the account of Canadian River Gas Company.

Q. That is what I intended to ask.

A. Yes.

Q. Now, you examined such corporate books and records of Master Oil & Gas Company as you could find at Independence, Kansas?

A. I examined the entire records of Master Oil & Gas Company at Independence, Kansas.

Q. And did the stockholders of Master Oil & Gas Company have a meeting to consider this proposal that you have read into the record?

A. The Board of Directors of Master Oil & Gas Company held a special meeting on September 14, 1928.

Q. For what purpose?

A. "For the purpose of considering the offer of Amarillo Oil Company to purchase the oil lands and leases of Master Oil & Gas Company in the state of Texas and all property rights and privileges held or used in connection therewith and that the consideration for said property, to-wit, the sum of $229,650 is a satisfactory and fair consideration therefore; and have met with the approval of the stockholders of this company at the meeting of said stockholders held on this date."

Q. What you are reading from is an excerpt or memorandum taken from the minutes of the Board of Directors meeting held on September 14, 1928?

A. I am quite certain that is the entire substance of the meeting held on that date held by the Board of Directors.

Q. What is confusing to me is that there were apparently two meetings on that date; one with the Board of Directors and one with the stockholders, and this particular proposal, as I understand it, was considered and approved at both meetings. Is that correct?

A. I don't have any—there was a stockholders meeting on that date but I don't have any abstract of those minutes.

Q. Would you say that it is a true statement that the stockholders did approve the transaction on that date from what you have before you?

A. Yes.

Q. Do you know how many stockholders were present at this meeting?

A. No, I do[illegible].

Q. Do you know whether the majority of the stock was represented at the meeting?

A. I don't seem to have that information in my papers.

Q. Do you know whether or not the stock of Master Oil & Gas Company held by the Prairie Oil & Gas Company was represented or participated in the meeting?

A. I do not.

Q. By the way, who composed the Board of Directors of Master Oil & Gas Company on September 14, 1928?

A. I do not have that information.

Q. Do you know how many directors there were?

A. I do not.

Q. Do you know how many representatives of the Prairie Oil & Gas Company were on the Board of Directors at that time?

A. I don't have that information in my papers but—

Q. I don't want you to guess about it, Mr. Luttring.

A. I just want to make a statement here.

Q. All right.

A. I think there has been something introduced in evidence on that matter.

Q. In these proceedings?

A. I think so.

Q. About Master Oil & Gas Company?

A. Well, I don't know whether it has reached Master Oil & Gas Company or not, but the Commission's counsel Mr. March, has introduced considerable evidence regarding corporate relations.

Q. Do you refer to this—

Mr. March: Mr. Luttring, you mean Mr. Schutte, don't you?

The Witness: No, I mean in the cross examination you have done from time to time.

Mr. March: Oh, yes—

By Mr. Spencer:

Q. Do you have reference to this Exhibit No. 141 and Exhibit No. 142 that have been introduced by the Federal Power Commission?

A. Well, this one wouldn't fit over case because this is the status at December 31, 1939.

Q. It wouldn't be this one?

A. No.

Q. Now, at this stockholder's meeting held on September 14, 1928, what other business was transacted?

A. That is all that was transacted at that meeting.

Q. Did not the stockholders consider a proposal to dissolve and wind up the affairs of the company?

A. There was a proposal to dissolve the company taken up in the Board of Directors meeting on April 17, 1928.

Q. When was the corporation dissolved?

A. About August, 1930.

Q. My notes show, Mr. Luttring, that the corporation was dissolved on October 2nd, 1928. I may be in error but I wish you would check that date.

A. It wouldn't have been October 2nd, 1928.

Q. Yes, I think so. Anyway, will you check that date?

A. They didn't get their money until after that date

Q. Well, when do the records show the assignments were made to Canadian River Gas Company covering these leases?

A. That may be, but you said "dissolution."

Q. That is right. Let me give you these dates as I have them and you can check them in your sequence of events to see whether or not you think I am correct or incorrect.

The stockholders meeting to dispose of all of the properties and assets of the company was held on September 14, 1928. I think that is correct, is it not?

A. That is correct.

Q. The company actually dissolved on October 2nd, 1928. Thereafter the directors continued as trustees of the corporation to wind up its affairs; the assignments of the leases to Canadian River Gas Company were actually made on November 9, 1928, but I think the consideration was received some time after that and distributed to the creditors and to the stockholders.

A. That is correct.

Q. That will be in the record and, if you will, check those dates to see whether or not that is a correct sequence of events.

A. I have followed you when stating those dates and they do agree with my papers.

Mr. Spencer: All right, that is fine.

The Trial Examiner: Would the dissolution date be in your papers?

The Witness: He hasn't mentioned it.

Mr. Spencer: The dissolution date was October 2nd, 1928.

The Witness: I can't agree with that date because the money was not given to the Master Oil & Gas Company until subsequently.

Mr. Spencer: That wouldn't make any difference—well, I am talking legal conclusions now. However, you check it, will you not?

The Witness: All right.

By Mr. Spencer:

Q. I think I asked you a question this morning as to how the consideration of $235,054.20 which was paid by Canadian River Gas Company for the Master Oil & Gas Company's assets was arrived at and I think maybe my questions were confusing or your answers were confusing, or both, so will you refer to your working papers and put that in the record as it should be?

A. The price of $229,650 paid by Canadian River Gas Company to Master Oil & Gas Company for leases and Masterson No. 1 and Sneed No. 1 wells on those leases was determined as follows: 5,404.2 acres at $25 per acre, $135,105; cost of wells, $94,545.

In addition to the basic price there was paid for rentals $5,084.20 representing rental for one year at $1 per acre from June 1, 1928, and $320 representing rental of $1 per acre for one year from March 18, 1928.

Q. I think that is correct, Mr. Luttring. Now, the proposal covered acreage that was not actually transferred or assigned to the company, is that correct?

A. Will you read the question, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: I don't quite get what you are talking about.

(Discussion outside the record.)

By Mr. Spencer:

Q. I had in mind that the title on some of the acreage covered by the proposal was not finally approved by counsel for Canadian River Gas Company and Amarillo Oil Company; consequently, that amount of acreage at the rate of $25 per acre was eliminated.

A. There was no acreage rejected.

Q. There was no acreage rejected in this transaction?

A. No, that's true.

Q. Now, on Page 2, Exhibit 146, the first line you say: "Total original legitimate expenditures, $112,359.55." You do not use the word "legitimate" there in the sense that you have thrown out some expenditures that you considered illegitimate?

A. I do not. I merely use it in the sense that they are proper expenditures to be included in the plant account.

Q. What you said in the beginning with reference to the use of "legitimate" or "proper" or any other adjective in connection with the original cost is applicable to the use of the word "legitimate" here?

A. Through the entire exhibit.

Q. And then you deducted that amount which I read, $112,359.55, from the amount of the purchase price paid by Canadian River Gas Company, namely, $235,054.20, and you reached the conclusion that Canadian River Gas Company paid $122,694.65 in excess of the amount paid over original legitimate expenditures, is that correct?

A. That is correct.

Q. Now, in the original cost as you have computed it here, has any allowance been made for overheads that Master Oil & Gas Company may have sustained?

A. There isn't any reflected in this report and there was none reflected on the books.

Q. I take it that such expense of that character as the company may have had was either charged to expense or lost in some process, is that correct?

A. That is correct. However, the amount of transactions that did go to the surplus of Master Oil & Gas Company were of an immaterial amount.

Q. There is no interest on the money employed in this venture included in your original cost, either, I take it?

A. There is not.

Q. In other words, this is just the bare bones cost of what you find, what in your opinion represents original cost of these two leases of the Master Oil & Gas Company?

A. That is true.

The Trial Examiner: Are there any interest charges contained on the books of the Master Oil & Gas Company, Mr. Luttring?

The Witness: I will have to look it up.

Mr. Spencer: Pardon me; read the Examiner's question, please.

(The record referred to was read by the reporter, as set forth above.)

The Witness: I do not find any interest so recorded either in the plant account or the income accounts of Master Oil & Gas Company.

By Mr. Spencer:

Q. While you were in Independence, Kansas in regard to this matter you also had access to the books of Prairie Oil & Gas Company relating to these leases?

A. If I remember correctly, I think it was only necessary to refer to the Prairie Oil & Gas Company records so far as that Sneed No. 1 well was concerned. The purpose of that was to obtain the features that were involved in the construction of the well.

Q. And to verify the cost?

A. Yes.

Q. Did you find on the books and records of the Master Oil & Gas Company the following items of expenses for its account by Prairie Oil & Gas Company which were expensed and not capitalized: Field expenses, $4,225.86; general expense, $2,650.26?

A. No, I did not note such items in the income accounts of Master Oil & Gas Company.

Q. What do you mean by that answer? That you weren't interested in that character of item?

A. The surplus account at the end of 1927 for Master Oil and Gas Company resulted in a deficit of $5,758.68. Net loss for the year 1928 was $1,235.85. Now, that was the extent of the income accounts of Master Oil & Gas Company. From that it cannot necessarily be concluded, but it does indicate that there wasn't a great deal of items that did go in with the income account.

Q. Now, assume that you had found these two items in the income account of Master Oil & Gas Company. What disposition would you have made of them?

A. I most likely would have included them in the plant account.

Q. Did you have no way in your working papers to identify these two items?

A. I don't think I do.

Q. Your working papers are available with respect to the income account as you found it?

A. Well, I don't know whether I have a complete analysis on it or not. I have quite a number of things in here which do relate to it.

Mr. Spencer: Well, I think we can probably short-cut that by having one of our boys look at your working papers to see if we can identify it in your working papers. We can do that later.

The Trial Examiner: Very well.

By Mr. Spencer:

Q. When I spoke about overheads, I of course include supervision and general administrative charges. You understand that that is what I had reference to?

A. Oh, yes.

Q. Now, will you tell me again why you eliminate from the original cost of these two leases as paid by the Canadian River Gas Company, the sum of $122,694.65?

A. I didn't eliminate that much from there. I eliminated $121,786.50.

Q. I beg your pardon. That's correct.

Using that figure in my question, then—

A. This transaction wasn't considered as being at arm's length. It was a transaction in which there was an official and corporate relation as shown on Page 3 of this adjusting entry.

Q. What do you have in mind when you use the term "arm's length"?

A. Any company or official corporate relation denotes that it is more or less a transfer of property rather than a sale. That is, if a party is acting both as a buyer and seller it is not likely that he can make a fair deal.

Q. It is not likely that he can. Do you mean that?

A. Well, I would say that he can't do it.

Q. Would you say that it is impossible to have an arm's length transaction between a buyer and a seller where the same stockholder controls both the buyer and seller?

A. I would say it is impossible.

Q. You would say that it is impossible?

A. Yes, sir.

Q. You do not think that it would be possible to provide outside safeguards to assure the fairness of the price and other terms and conditions of the sale?

A. Will you repeat that?

(The record referred to was read by the reporter as set forth above.)

The Witness: I don't believe that I understand your question.

By Mr. Spencer:

Q. Well, let me state it to you another way:

Let us assume that we have a buyer and a seller in the relationship that I stated a moment ago. They do have an interlocking common stock ownership; nevertheless, the transfer of the property is advisable and they call in a third party to determine the fair value of the property and the fairness of the price and the fairness of the terms and conditions, and having the decision of a third party in these respects they make a deal.

A. That still would not alter the situation.

Q. You still think that if there was any profit involved it would have to be eliminated?

A. Yes. It is merely a transfer of property between interests owned by the same party, and in such case it should be transferred at cost between those companies.

Q. Well, let's pursue that a little bit. Prairie Oil & Gas Company own 51 per cent of Master Oil & Gas Company, and they had about 25 or 30 individuals living around Amarillo, ranchers and others, that own the other 49 per cent. It it true that by reason of the ownership of 51 per cent by Prairie Oil & Gas Company that there is no means under which the other 49 per cent could receive the fair value of their property?

A. Well, there probably is in that case, but—

Q. I beg your pardon, is or is not?

A. Is, in that instance.

Q. Well, that's the case we have here

A. But in addition to Prairie Oil & Gas Company owning 51 per cent of the stock of Master Oil & Gas Company it was also interested in the company who finally purchased this property and in the agreements that were signed there was a common officer who executed the papers.

Q. I think that is admitted, Mr. Luttring. However, if Canadian River Gas Company wanted the property and needed the property and paid no more than its fair value as determined by proper safeguards, what would be wrong about it?

A. Well, if you consider fair value as original cost in this case then I see nothing wrong about it.

Q. Well, let's go to that a minute. You couldn't find the cost of a well here, the original cost, so you found an

appraisal figure which you thought was fair and you used it. Now, why didn't you go over and appraise the acreage? It's just as consistent, isn't it?

A. There is no need of appraising the acreage because in this instance which we are now discussing there was a new lease taken by Master Oil & Gas Company and we were only interested from the first bonus ~~that was~~ paid on that lease.

Q. Do you know what the fair value of acreage was in the Texas Panhandle field at that time for leases similarly situated?

A. I don't know what the fair value was at that time and I don't know now.

Q. You aren't prepared to say that $25 per acre is an unreasonable or exorbitant price for the acreage involved in this transaction?

A. I am not in position to say what the fair value of that acreage is.

Q. There is one other thing I wanted to ask you about: Going back to this morning, I believe you testified that Prairie Oil & Gas Company originally acquired 25 per cent of the issued and outstanding stock of Master Oil & Gas Company in 1925, is that correct?

A. That is correct.

Q. And that this particular capital stock was acquired with a number of other properties from Shamrock Oil & Gas Company, is that correct?

A. That is correct.

Q. Do you know that the purchase price for all of those properties inclcuding this stock, 25 per cent of the issued stock in Master Oil & Gas Company, was $2,300,000?

A. I don't remember the amount. I did, however, see the voucher that you referred to.

Q. Well, it was a substantial sum?

A. Yes, it was.

Q. Do you know what value, if any, was assigned to this stock by Prairie Oil & Gas Company?

A. I wasn't concerned with what value they assigned to that stock.

Q. Do you know whether this transaction finally was concluded at a profit or at a loss so far as the Prairie Oil & Gas Company was concerned? I mean the entire transaction.

A. That I do not know. I didn't examine the records of Prairie Oil & Gas Company to that extent.

Q. The reason I ask you that is because I understood you to say some place in your testimony this morning that one of the reasons impelling you to take out this sum of $121,786.50 represented an improper profit to the Prairie Oil & Gas Company. Am I wrong about that?

A. I think you have stated it incorrectly. I don't believe I stated it that way. I don't think I said who the profit was improperly received by.

Q. Well, the Prairie Oil & Gas Company is the fly in the ointment here, if it didn't make an improper profit in the transaction, certainly you wouldn't want to preclude the other stockholders from making the profit. Is that not correct?

A. I don't think that is quite correct. I am taking out of the plant account the entire profit on this transaction and I don't assign it to any particular stockholder or recipient.

Q. You don't know that that represents a profit so far as the Master Oil & Gas Company is concerned, do you?

A. I am not concerned as to whether it is or not.

Q. Well, you are calling it a profit. Profit on what basis? Let's not get—

A. It is a profit to the extent that it exceeds the original cost as reflected on the books of Master Oil & Gas Company.

Q. I like the word "excess" better than the word "profit." Which is the better?

A. I think I use excess. I don't know.

Q. Yes, you did, because I think as a matter of fact the books and records of the Master Oil & Gas Company show that they made no profits; isn't that correct?

A. The way the books of Master Oil & Gas Company were kept, it probably would reflect that no profit was made.

Mr. Spencer: I think that is all on this particular item, Mr. Examiner. If we could have a recess for five minutes or so we could proceed then, Mr. Examiner.

The Trial Examiner: Very well, we will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Spencer:

Q. I have just a few more questions, Mr. Luttring, about your adjusting entry No. 200, Exhibit No. 146. On Page 1 you start off with lease cost, bonus paid R. B. Masterson and J. T. Sneed, Jr., on lease dated June 1, 1926, covering lands in Moore County, Texas, $5,247.20. I take it that that is the first cost you allow these lessees with the exception of the value of the Masterson M-1, which you set up, is that right?

A. That is right

Q. And any previous cost that Master Oil & Gas Company or anyone else may have had with respect to these leases are not allowed here?

A. They are not included in this journal entry.

Q. Do you know what safeguards were utilized by Canadian River Gas Company to make certain that it was not paying more than a fair price for these leases and wells?

A. (Pause.)

Q. I am asking you if you know.

A. I can answer it only in a general way.

Q. All right. Answer it any way you choose.

A. Canadian River Gas Company had a considerable amount of acreage and had numerous wells previous to the time they made this purchase. The cost of those wells which they owned in some instances were slightly higher than the cost of the two wells that are shown on Page 1, and in some instances the costs were much lower, which would give a person investigating the records a reasonable idea of the cost of those wells.

Q. I think maybe you misunderstand my question or I didn't state it very plainly. Let me put it to you this way:

Who provided the money with which to pay the purchase price for these leases and wells?

A. Well, all I can say is that the money was paid by Canadian River Gas Company, who they got their funds from to make that payment—

Q. I don't intend to ask you anything about that. If you don't know, just say so.

Are you familiar with the contract between Canadian River Gas Company and Colorado Interstate Gas Company—

A. I am not.

Q. —covering the purchase and sale of gas and the conditions under which Canadian River Gas Company may acquire acreage and leases and the provisions for providing funds for that, etc.?

A. I am not thoroughly familiar with that.

Q. All right, now, we have involved here a transaction covering the sale and disposition of all of the assets of Master Oil & Gas Company and its dissolution. In other words, it is a winding up, a liquidation. Is that a fair interpretation of what the transaction was?

A. That is it exactly.

Q. Now, assuming there was some law in the State of Texas which required eighty per cent, or two-thirds of all of the issued and outstanding capital stock in the Master Oil & Gas Company to approve the sale of all of its assets and to dissolve it, would you still say that 51 per cent of the stock controlled in that situation?

A. Yes.

Q. Why?

A. Well, because there couldn't be much done with the property unless the 51 per cent consented in some form or other.

Q. Isn't it likewise true there could have been no sale or disposition without sufficient other stock to make up the two-thirds or the eighty per cent, whichever might be the case?

A. Will you read the question, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: In this instance I don't think it would have been difficult.

By Mr. Spencer:

Q. That isn't quite what I am asking you about. I am asking you if 51 per cent of the stock controls the situation

which requires the affirmative vote of two-thirds or eighty per cent of the stock.

A. Read the question again, will you?

(The question referred to was read by the reporter as set forth above.)

The Witness: It would still control the prospective sale. No sale can be made unless they have the consent of 51 per cent.

By Mr. Spencer:

Q. I think that is correct.

Now, to apply that another way, if you needed one per cent to make up two-thirds or eighty per cent, the one per cent would likewise control, is that not likewise correct?

A. That could be possible.

Q. Well, it would be precisely correct, would it not? You couldn't put it over without that one per cent, could you?

A. Technically it is correct but there are always means found to get that one per cent.

Mr. Spencer: I am not going to follow you into that.

All right, one more question and then I think I will be through for the time being.

Q. Let's assume that the cost of these leases and wells of the Master Oil & Gas Company—I am speaking of the original legitimate, proper, or whatever you want to call it —was $300,000, and they sold them to Canadian River Gas Company for $235,000 plus, and you were called upon to determine the original cost for the purpose of this proceeding, would you in that event come in here with $300,000 or $235,000 plus?

A. The net of the transaction would be reflected in your plant account; the original or first cost of the property would be reflected in their property accounts, and any difference between that and what you paid would be reflected in this Account 100.5.

Q. Well, is it in or out of the plant account, that is, the excess over $235,000?

A. Well, the excess is in and out there.

Q. Where do we wind up?

A. Well, you get the amount that you paid for the property. The entry itself is reflected in two accounts.

Q. We would be permitted to set up only the amount that we paid in a plant account in the event it was less than the original cost of the selling company, is that correct?

A. That is correct.

Q. Why doesn't this proposition work both ways?

A. Well, this last case that you have cited was one, I assume, that was an arm's length deal.

Q. Yes, let's assume that.

A. That is the difference between this transaction and the one that you just cited.

Q. Let's assume it wasn't an arm's length deal and it was just the same—let's assume it was the same kind of a deal we have here; only the cost to Master Oil & Gas Company as you find it is $300,000 and not $112,000 plus?

A. This is not an arm's length deal, is that correct?

Q. I am not going to reach that conclusion. Let's assume it is the same kind of a deal we have here.

A. Will you state that last part again?

(The record referred to was read by the reporter, as follows:

"Q. Let's assume it wasn't an arm's length deal and it was just the same—let's assume it was the same kind of a deal we have here; only the cost to Master Oil & Gas Company as you find it is $300,000 and not $112,000 plus?

"A. This is not an arm's length deal, is that correct?

"Q. I am not going to reach that conclusion. Let's assume it is the same kind of a deal we have here.")

The Trial Examiner: Mr. Spencer, your hypothetical question is that the cost of the Master Oil & Gas Company would be $300,000?

Mr. Spencer: Right.

The Trial Examiner: And the price paid to the Master Oil & Gas Company by the Canadian River Gas Company would be the same?

Mr. Spencer: That is correct.

I am asking the question because I want to see how the rule works, the definition works, in respect to these transactions.

The Witness: In that particular case, gas plants adjustment account would be credited with the difference between original cost and the price paid for that particular equipment.

By Mr. Spencer:

Q. What is the effect of putting the difference down in the gas plant adjustment account so far as Canadian River Gas Company is concerned, and its future income?

A. On Page 17, Uniform System of Accounts prescribed for natural gas companies, Account No. 107, Gas Plant Adjustments, is explained as follows:

"A. This account shall include the difference between the original cost, estimated if not known, and the book cost of gas plant, at the effective date of this system of accounts, to the extent that such difference is not properly includible in Account 100.5, Gas Plant Acquisition Adjustments. Write-ups of gas plant prior to the effective date of this system of accounts shall be recorded herein.

"B. The amounts included in this account shall be classified in such manner as to show the nature of each amount included herein and shall be disposed of as the Commission may approve or direct."

Q. Well, of course, in the assumed case I have here we had no write-up?

A. No, in this case you received a credit that was really to the benefit of the company.

Q. Well, I don't think it is necessary to take any more time on that right now.

Turn to Page 4, Exhibit No. 146, Adjusting Entry No. 201, which has a note at the bottom stating: "To charge delay rentals account with amounts included in the plant account at December 31st, 1939, representing payments for *renuals* and rentals on leases made in years as follows:"

Then it goes into detail. Can you amplify that explanation a little bit, Mr. Luttring, so as to give us a little clearer view as to what you are attempting to do in this particular entry?

A. Well, it may help if I am permitted to read the explanation of Account No. 510, Delayed Rentals in the Classification of Accounts.

Q. Let me ask you some questions about it first:

What is the basis for the adjustments that you make in Entry No. 201?

A. The basis is the cost shown by the company's books.

Q. I am thinking more of principles than theories and books.

A. Well, the principle goes back to a requirement of the classification of accounts—

Q. That is the answer I wanted. Go ahead and read it in.

A. On Page 82 of the Uniform System of Accounts, Account No. 510, Delay Rentals, is explained as follows:

"A. This account shall be charged with the amount of rents paid periodically on natural gas lands in order to hold natural gas land and land rights for the purpose of obtaining a supply of gas in the future.

"B. Include also in this account the cost of obtaining natural gas leases for a period of one year or less."

That is sufficient, I think.

Q. Now, in making this adjustment you have followed the instructions just read from the Uniform System of Accounts of the Federal Power Commission?

A. That is correct.

Q. Now, do these instructions apply to entries of this character subsequent to the date of the Uniform System of Accounts becoming effective or are these instructions retroactive?

A. (Pause.)

Q. Let me ask you—

A. Just a minute. I want to think it out.

Q. Excuse me.

A. The classification would not be retroactive in all instances but since we had an opportunity to open up the company's surplus account we did make the transfer of delay rentals from the plant account to the income account on a retroactive basis.

Q. When did the Uniform System of Accounts become effective?

A. January 1, 1940.

Q. Do I understand you correctly in this, that commencing in the year 1929 and ending in the year 1939 in

adjusting entry No. 201, you have applied the principles in the instructions just read into the record retroactively so far as the accounts of Canadian River Gas Company are concerned?

A. That is true.

Q. That is to say that during all of this period from 1929 to 1939, inclusive, there wasn't any obligation upon the company, from the Federal Power Commission, or otherwise, to make these entries in the manner you think they now should have been made?

A. I don't think there would be if it had not been for a rate proceeding.

Q. Do you think the accounting of the company with respect to these items was in error at the time the entries were made?

A. No, I don't think they were in error. There was two schools of thought in handling that type of an item. The more conservative companies charge that type of item to income account, other companies capitalize it.

Q. There was some accepted basis in accounting practice then for the entries as they were made by Canadian River Gas Company at the time?

A. That is right.

Q. What you are doing here is exercising a hind-sight judgment so far as our accounts are concerned?

A. That is true.

Q. All right, what do you understand by the term "delay rental"?

A. A delay rental is an amount paid to the lessor or assignor and an assignee, or an assigner, granting the privilege of deferring the drilling of wells. These amounts are usually paid annually.

Q. It is a provision in the lease?

A. That is correct.

Q. Made by whom? I think you said "paid to him," but not by whom.

A. It is paid by the person holding the lease.

Q. Or the lessee or the operator, as the case may be?

A. Yes, sir.

Q. What do you understand by the term "bonus" in connection with oil and gas leases?

A. The word which?

Q. Bonus.

A. A bonus is similar to a rental payment except that it is paid at the time the lease is executed. It usually covers the first year's rental period of the lease.

Q. Have you got any bonuses in this list on Page 5?

A. There may be some in there.

Q. All right.

A. I use the word "renewals" and "rentals" on leases.

Q. There might be a provision in a lease requiring payment of a bonus without any relationship whatsoever to the deference of drilling obligations, is that not right?

A. That is possible.

Q. And in that instance it would not conform to your definition of "delay rentals," would it?

A. It would still be an expense incurred for the purpose of holding that piece of property.

Q. I know, but in adjusting entry No. 201 you are dealing with delay rentals and I am trying to confine ourselves to that, and to make certain that we understand each other about it. If your definition of delay rentals is not sufficiently broad to cover what you have in mind here, then I would suggest that you re-define it so as to cover the whole scope of what you have in mind because I am going to question you on that basis when we come to the several items.

A. Do you wish to distinguish bonuses and rentals?

Q. I want to make certain that we understand what we have involved here in these adjustments; delay rentals, as I understand it; bonuses, as I understand it; guaranteed royalty obligations, as I understand it, or whether you have a different conception of what delay rentals are. You have a heading entitled "Delay Rentals" and I can't start until I know what you mean by "delay rentals."

A. Adjusting Entry No. 201 represents not only delay rentals but renewal bonuses paid from 1929 to 1939 on leases that are still active at December 31st, 1939, all of which we removed from operated and unoperated leases and charged the income account.

Q. Well, the term "delay rentals" as we understand it in oil and gas parlance is too limited for what you have done in this entry. Am I correct?

A. Well, it may be. I don't know.

Q. What do you understand by "guaranteed royalties" as distinguished from "delay rentals" or "bonuses"?

A. The guaranteed rentals doesn't enter into this account.

Q. No guaranteed royalties?

A. Guaranteed royalty is not included—would not be included in this account.

Q. It would not?

A. No, sir.

Q. Now, turning to Page 5, can you identify these leases for me as we go down the list? You have them identified by lease number, which I, of course, ought to know. If you could give me the name of the lessor it would help me; that is, if you have it in your working papers.

A. If you will refer to Schedule 2-A, Page 71, you will find the delay rentals and bonuses that were removed from the operated leases, and on Page—

Q. Before you leave that page, Page 71, Mr. Luttring, how would I find them? Guide me a little here. I would follow this until I found Lease No. 63?

A. Well, if you will go to Column 8, your first item there is J. T. Sneed Lease No. 6-A. Now, if you go to Sheet 5 and look down your lease column number you will find in 1931 $6,528, and in 1935 there is $2.50.

Q. Yes, that is right. I follow that. And on Page 71 I don't see any 63.

A. Well, 63 is unoperated lease. It would be on a schedule following the operated leases.

Q. Oh, I see.

A. Beginning on Page 73.

Q. 73, I see. That's right. I think I can follow that, Mr. Luttring.

Now, have you examined these leases involved in this entry?

A. The leases were not examined by me. They were examined by our Bureau of Engineering.

Q. Your information as to what the lease contains with respect to provisions covering delay rentals, bonuses, were obtained from someone else?

A. Yes. Any information that we would need on that particular point would be obtained from the Commission engineers.

Q. Well, what function did you have here—just to put down the figures on somebody else's conclusions as to what certain amounts of money have been paid for?

A. Well, they were mostly developed from facts shown by the records of the company and such information as we needed from the Bureau of Engineering.

Q. Well, the best source of information as to the character of the payment, what it was made for, would be the lease itself, would it not?

A. That is true.

Q. Do you have copies of the leases involved in this entry?

A. I have reviewed some of the records of the Bureau of Engineering.

Q. Well, take the first one, the first item on Page 5, Lease No. 63, $1,280, paid in the year 1929. Just go through and explain that transaction. All I want to know is what you did about that item and your reason for it.

A. Lease No. 63 showed a charge to the unoperated lease account in 1929—

Q: I beg your pardon? I didn't get that.

(The record referred to was read by the reporter, as set forth above.)

The Witness: (Continuing) --applicable to Lease No. 63 of $1,280. In 1934 the same lease was charged with $2,450. Not having any further facts than what is shown in the exhibit, I would assume that the payment made in 1929 is a renewal bonus and also the payment made in 1934 was a renewal bonus.

Q. Well, now, Mr. Luttring, I don't want you to assume that it was a renewal bonus paid in 1929 or a renewal bonus paid in 1934. I would like to know—to find out for the record here exactly what it was paid for. Otherwise, we aren't going to get very far.

A. It isn't definitely indicated in the exhibit but I can get it from my working papers.

Q. All right, will you examine your working papers with respect to that item and see what you have?

A. I'll have to do a little further digging, if you wish to wait.

The Trial Examiner: Do you think you can find it there, Mr. Luttring?

The Witness: They aren't clearly distinguished here.

Mr. Spencer: ~~Well,~~ Mr. Examiner, I want to inquire along the same lines with respect to all of these items. It might save time if I deferred that part of it until he does have an opportunity to find his working papers on it.

The Trial Examiner: You mean that portion of your cross examination?

Mr. Spencer: Yes. I could proceed to the next item, perhaps.

The Trial Examiner: Do you have them there, Mr. Luttring?

The Witness: It will take a little time. I may have to dig out individual papers for each lease.

The Trial Examiner: Very well. I think, then, under that situation it probably would be advisable to defer that until he has had an opportunity to find them.

By Mr. Spencer:

Q. In that connection, Mr. Luttring, I want to know with respect to each item whether the payments made represents delay rental, bonus, renewal or otherwise; whether it represents guaranteed royalty payment, and I would like the very best information that you have for classifying the payments as such, whatever there may be. In the absence of a study of the lease themselves, why, I'll take the best you can do in that respect.

Now, we'll go to Page 6—

The Trial Examiner: Mr. Spencer, before you go to 202, Mr. Luttring, did you state what the net effect of your adjustment here is, your Adjustment 201?

The Witness: The net effect is that surplus of the company will be reduced by $151,991.23—will apply to the years we have detailed in that entry.

By Mr. Spencer:

Q. The surplus will be reduced and the—
A. The contra account less investment will be reduced.
Q. Will be reduced likewise?
A. By the same amount.
Q. Have you made any attempt here later—or, I presume

perhaps in some other exhibit to allocate the surplus charges to the year in which they are applicable?

A. The purpose of us showing these years as we have in the journal entries was to enable us to classify those adjustments in the years to which they apply.

Mr. Spencer: Did you have any further questions, Mr. Examiner?

The Trial Examiner: Yes, that's all right.

By Mr. Spencer:

Q. Page 6, Adjusting Entry No. R-202. I assume in this case the letter "R" indicates that it is merely a reclassification?

A. That is true.

Q. You have taken out of operated leases acquired from Amarillo Oil Company and the Mountain States Gas Company the amount of investment in gas wells which you think should be more properly classified in gas well investment account?

A. That is correct.

Q. Otherwise, no change is made in the figures?

A. No effect to the plant account as such. I'll give you a little further history about the transaction if you would like to have it.

Mr. Spencer: Maybe the Examiner would like to hear it. Go ahead.

The Witness: The Mountain States Gas ~~Company~~ purchased four wells, the cost of which is detailed in Entry No. R-202. The price paid for these wells was an overall price; that is, covering both the leases and the well construction costs. The entire purchase price was charged to operating lease account and no part of it was charged to the well construction costs.

Now, on April 30, 1924, the Mountain States Gas Company inventoried the well construction costs and recorded those costs in their gas well accounts and made an offsetting credit in the same accounts for the amount of the inventory, thereby making the transaction nil. What we have done in this journal entry is to reflect the cost related to the well as shown by the inventories of April 30, 1924, and taken the amount represented by those costs out of operated lease account.

Q. That would conform to the Uniform System of Accounts?

A. No, you wouldn't find that in there.

Q. You wouldn't find that in there?

A. No, sir.

Q. Has the company been in error in the way that it has handled it, or do you think that what you have suggested here is just a better accounting practice?

A. It makes the records more correct because there is an element of depreciation particularly in your structural costs.

Q. Now let's turn to Page 7, Adjusting Entry 203. This is not a reclassification?

A. It is partly a reclassification and partly an adjustment.

Q. Well, let me read this and see if I understand it.

Well, can you explain in a little simpler language what this transaction is about?

A. Yes. We refer to Page 4 in the written statement.

Q. Of the written statement?

A. Yes, sir. The very last paragraph.

Q. Well, let's break it up in parts. The first part of it relates to a transfer of the cost of drilling certain wells and operated leases to gas well investment.

A. That is correct.

Q. To that extent it is a reclassification the same as we had in Adjusting Entry No. R-202?

A. That is correct.

Q. What amount is involved in that?

A. $289,147.77.

Q. Now, the explanation with respect to that much of this entry is substantially the same as the explanation you made with respect to No. R-202?

A. That is right.

Q. Now, you have left $128,534.04. That's a different animal. It is an adjustment. It represents a transfer of cost to Amarillo Oil Company acquiring the net assets of Mission Oil Company in excess of the original cost of operated leases to gas plant adjustment account.

Now we are dealing only with wells, well costs here and not lease costs or both?

A. No, we are dealing only with gas well costs.

Q. Gas well costs. The wells we are talking about, the wells drilled on Lease No. 30 and Lease No. 58, altogether seven wells?

A. That is correct.

Q. Those wells, I take it, were acquired from the Mission Oil Company by Amarillo Oil Company?

A. That is correct.

Q. Who drilled the wells?

A. The wells were drilled by A. R. Jones and Associates, in accordance with an agreement dated November 20, 1918.

Q. An agreement with whom?

A. Amarillo Oil Company.

Q. Now, whose cost is reflected here—A. R. Jones' cost or Mission Oil Company's cost, or whose cost?

A. I have reflected the combined costs of Amarillo Oil Company, Mission Oil Company and A. R. Jones and Associates. The cost I have reflected represents the original costs of these wells.

Q. When you get through building up the original costs of A. R. Jones, Mission Oil Company and the Amarillo Oil Company, do you find that that cost is less than the cost reflected on the books of Amarillo Oil Company?

A. We found that the costs were less by $128,534.04.

Q. How does that come about? Did Amarillo Oil Company buy these wells?

A. When Mission Oil Company consolidated their fifty per cent interest in these wells with the fifty per cent interest owned by Amarillo Oil Company, they wrote up their accounts by the amount of $128,534.04.

Q. Who wrote up the accounts?

A. They were written up on the books of Amarillo Oil Company.

Q. Now, I'm afraid that you and I together aren't very clear to the Examiner just how this whole thing arose. Can you go back and in sort of an historical manner from your notes outline to the Examiner just what took place here? Otherwise, my questions and your answers may be somewhat—

A. Do you want a further explanation?

Q. I think we ought to have a little clearer explanation of the transactions that took place here, Mr. Luttring. I don't know whether you have the notes to do it with or whether I better go on the witness-stand and do it, but it

isn't going to be clear unless we have an explanation here some place as to just what took place.

Let me start with questions.

A. Supposing I read what is in this written statement. I think that covers it pretty well.

The Trial Examiner: Page 4?

The Witness: Starting with the very last sentence on Page 4.

Mr. Spencer: I don't think there is any necessity to read it again.

Q. When was Amarillo Oil Company incorporated?
A. About 1917.
Q. Who incorporated it?
A. Masterson and Bivins and a few other local people at Amarillo, Texas.
Q. What was the amount of its authorized capital stock?
A. Ten thousand dollars.
Q. In what state was it incorporated?
A. Texas.
Q. What leases—oil and gas leases did it commence business with?
A. Masterson and Bivins and several others of which they later disposed.
Q. Undeveloped leases?
A. They were undeveloped at the time they acquired them.
Q. The corporation was formed by local ranchers and cattle men and others in the vicinity of Amarillo?
A. I don't know the position of Masterson and Bivins and other people before they got in the gas business, but they were the original incorporators of the company.
Q. Were there any producing wells in the Panhandle field at that time?
A. I am not prepared to answer other than to state that I have been informed that the wells which were originally developed by Amarillo Oil Company were some of the very first wells drilled in that field.
Q. Do you know the date the discovery well was drilled in the field?
A. I do not.

Q. Now, you have testified that in 1918 Mr. A. R. Jones came along and made an agreement with the Amarillo Oil Company to drill certain wells on the oil and gas leases of the Amarillo Oil Company, is that correct?

A. That's correct, and all of the wells were drilled on Masterson lease.

Q. And in consideration of the drilling of those wells, what was Mr. A. R. Jones and Associates to receive?

A. Jones was given fifty per cent interest in the leases.

Q. In the leases themselves?

A. Yes, which Amarillo Oil Company owned at the time of the agreement.

Q. So that at the conclusion of the drilling of the wells, the wells with the leases themselves would be owned fifty per cent by Amarillo Oil Company and fifty per cent by A. R. Jones and Associates, is that correct?

A. If you will say fifty per cent of the income, I think that is correct.

Q. We were getting along pretty well up to that point. There were assignments of undivided fifty per cent interest in the leases, is that correct?

A. That is correct.

Q. All right. Did Mr. Jones agree to drill the wells free of cost to the Amarillo Oil Company? Is that correct?

A. I don't think the agreement read quite that way. He agreed to drill five wells for this fifty per cent interest in the leases.

Q. Well, didn't he agree to pay the cost of drilling the wells?

A. He agreed to put up the money, yes.

Q. He did put up the money, did he not?

A. Yes, sir.

Q. Now, those five wells let's identify those. On Page 7 —five wells that he proceeded to drill in order to receive an undivided fift[illegible] interest in the leases of the Amarillo Oil Comp[illegible]. Will you identify those five wells on Page 7 of your Exhibit 146?

A. They were all Masterson leases—or Masterson wells. There were no wells drilled on the Bivins lease under that agreement.

Q. That is to say, Masterson Lease No. 58, Well Nos. B-5, C-1, C-3, D-4 and E-2?

A. That is correct.

Q. That's correct. Now, that accounts for the five wells that you have got here. Now, in addition to the five wells, Mr. Luttring, that Mr. Jones agreed to drill for an undivided fifty per cent interest in these leases, he also drilled two other wells, is that correct?

A. That is correct, on which the Mission Oil Company and the Amarillo Oil Company were supposed to put up an equal amount of funds.

Q. In other words, these two other wells were drilled for the joint account of the two parties?

A. That is correct.

Q. Now, those two wells, can you identify those on Page 7 of Exhibit 146?

A. Bivins Lease No. 30, Well No. C-1, and D-3.

Q. Just a minute, please.

Now, this may be a typographical error, Mr. Luttring; but Bivins Lease No. 30 came up from Producers and Refiners Corporation and not from Mission Oil Company, Jones and Associates, or the Amarillo Oil Company?

A. Well, those wells now are under—that is the present lease number, see.

Q. Oh, I see. This is the present consolidated lease number?

A. That's correct.

Mr. Lange: Right there, for clarity, the well C-1, the first C-1, would be Bivins C-1 and the other one would be Masterson C-1. That would be their names, wouldn't it, at present? Of course, both of them are C-1 wells, in order to identify them. The first one would be identified as Bivins C-1?

The Witness: That is correct.

Mr. Lange: And the other one would be identified as Masterson C-1?

The Witness: I understood that was clear, wasn't it?

Mr. Spencer: Yes, that is correct. In other words, two wells numbered C-1 on different leases.

Mr. Lange: Yes.

By Mr. Spencer:

Q. Now let's go back to the five wells that Mr. Jones and his associates drilled for an undivided one-half interest in these leases. Where did you go to check the original cost of drilling those wells?

A. I went directly to the books of A. R. Jones and Associates and Mission Oil Company, located at Kansas City, Missouri.

Q. By the way, before we get ahead of our story, these five wells—the first five wells were drilled during what period, so we can keep our dates straight?

A. About 1918 to 1920.

The Trial Examiner: During that period, you mean, Mr. Luttring?

The Witness: That's correct.

By Mr. Spencer:

Q. And the other two wells were drilled when?

A. Around 1921 and 1922.

Q. Now, the original cost of drilling the five wells you found from the books and records of A. R. Jones and Associates at Kansas City, Missouri, is that correct?

A. That is correct, and the books of Mission Oil Company.

Q. Well, I don't want to get into the Mission Oil Company yet, if we don't have to.

A. All right.

Q. Now, I want to cover A. R. Jones and his cost and the cost to his associates. Perhaps I can't do that with the schedule that you have set up here on Page 7. That is a composite figure that you have here?

A. That is true. It is the result of figures from three companies.

Q. I see.

A. That is, A. R. Jones and Associates sold their interest to Mission Oil Company.

Q. What date?

A. July, 1922, and they had further additions, then in 1923, on January 15th when they consolidated their interest with Amarillo Oil Company who owned the other fifty per cent.

Q. In other words, at that time the A. R. Jones and the Mission Oil Company interests turned in their undivided

half interest in the leases for half of the issued and outstanding capital stock of the Amarillo Oil Company?

A. That is correct.

Q. They became stockholders of Amarillo Oil Company in substitution for their half interest in these leases?

A. That is right.

Q. Well, how can I find in these costs, these well costs that you have built up here, what the cost to Mr. A. R. Jones was and what the Mission cost was and the Amarillo Oil Company cost was?

A. Only by reference to my papers.

Q. Your working papers?

A. That is correct.

* * * * *

Mr. Luttring further testified on cross-examination: (Vol. XXXIX, pp. 5288-5328.)

Q. Mr. Luttring, at the conclusion of our hearing on Friday evening I think we were discussing your adjusting entry No. 203, Exhibit No. 146; is that correct?

A. That is correct.

Q. You stated that in 1918, A. R. Jones & Associates entered into an agreement with Amarillo Oil Company to drill five wells upon the leases held by Amarillo Oil Company—

A. That is correct.

Q. —in which they would have an undivided one-half interest in such leases?

A. That is correct.

Q. Do you have a copy of that agreement with you, Mr. Luttring?

A. Yes, sir, I do.

(Discussion outside the record.)

By Mr. Spencer:

Q. You have located it?

A. Yes, sir.

Mr. Spencer: I would like to have this agreement marked for identification, Mr. Examiner.

The Trial Examiner: What is the description of the instrument, Mr. Spencer?

Mr. Spencer: It is an agreement dated November 20, 1918,

between Albert R. Jones, Harry W. Jones, and E. W. Goebel on the one hand, and Amarillo Oil Company on the other hand.

The Trial Examiner: It will be marked for identification as Exhibit No. 160.

(Exhibit 160, Witness Luttring, marked for identification.)

By Mr. Spencer:

Q. Does that document disclose who the associates of Mr. A. R. Jones were, Mr. Luttring?
A. Yes, it does.
Q. And they were whom?
A. Harry W. Jones and E. W. Goebel.
Q. Do you know what business Mr. Jones and his associates were engaged in at that time?
A. Mr. Jones and his associates at that time were interested in an oil refinery located, I believe, at Kansas City, Missouri. They were—
Q. That is correct.
A. —also interested in some other gas property or oil property—I am not sure which it is.
Q. Now, did Mr. Jones and his associates help drill the five wells in accordance with their understanding in this agreement?
A. I didn't get your question.

Mr. Spencer: Read the question, please.

(The question referred to was read by the reporter, as set forth above.)

The Witness: That is correct.

By Mr. Spencer:

Q. And these five wells, I believe you have previously identified are the five wells listed under Lease No. Masterson 58 in the schedule on Page 7, Exhibit No. 146?
A. That is correct.
Q. Do you know the locations of these wells?
A. I could locate them on a map.
Q. Do you know the dates of commencement of each well?
A. I have seen a date for it and I have the date in my record.
Q. Do you know the dates of completion?

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A. I beg your pardon—I have the dates of completion in my papers but I do not know the date the gas was first taken from them.

Q. If you could find them rather readily, I would like for you to read the dates of completion of them.

A. All right. The dates of completion of the following wells were as follows:

Masterson C-1, December 8, 1918; Masterson E-2, August 19, 1919; Masterson C-3, September 23rd, 1919—this well was deepened on June 30, 1922—Masterson D-4, November 29, 1919; Masterson B-5, July 15, 1920.

Q. Do you also have there the depths of these wells?

A. Yes.

Mr. Spencer: Well, I don't think that is necessary.

Q. Now, in addition to the five wells that were drilled by Mr. Jones and his associates pursuant to this agreement in 1918, Mr. Jones and his associates also drilled two additional wells for the joint account of Amarillo Oil Company and Mr. Jones and his associates?

A. No, that is not correct. They also drilled three wells, one of which was completed dry.

Q. They drilled three wells for the joint account?

A. Yes, sir.

Q. The two wells listed on Page 7 in your schedule designated Bivins C-1 and Bivins D-3 are two of the wells drilled for the joint account?

A. That is correct.

Q. And the third well, which you say was drilled for the joint account, is not here?

A. It is not in these papers.

Q. It is not in these papers?

A. No.

Q. And the number of the well is what?

A. Bivins No. 2. It was never given any other symbol because it never produced any gas.

Mr. Keffer: What number was that?

The Witness: Bivins No. 2.

By Mr. Spencer:

Q. Do you have the date of commencement on the two Bivins wells shown in this schedule?

The Trial Examiner: You mean the commencement of drilling, Mr. Spencer?

Mr. Spencer: Yes, sir.

The Witness: Bivins C-1, August 1, 1919; Bivins D-3, May 23, 1922—

The Trial Examiner: Is that the commencement date?

The Witness: Yes, sir.

By Mr. Spencer:

Q. Will you give me the date again, please?

A. May 23, 1922.

Q. Aren't we getting a little confused? I am talking only about Mr. A. R. Jones and his associates and this last well that you have mentioned was not drilled for the joint account of A. R. Jones and Associates and the Amarillo Oil Company, was it?

A. Well, we do confuse the matter because the first five wells were all drilled on the Masterson lease. The money for doing that work was entirely furnished by A. R. Jones and his associates. This other work was done on a joint basis between Amarillo Oil Company and/or the Mission Oil Company.

Q. I think that is correct, if you include the Mission Oil Company in it. I don't think it is correct to say, however—

A. There is a lapover in there. I may not have this just as fine as you would like it.

Q. Did you give me the dates of completion on those wells? (Examining document) No, you didn't. Put in the dates of completion, too, on those two wells.

A. The following wells were completed on the dates as follows: Bivins C-1, February 19, 1920; Bivins D-3, December 2, 1922.

Q. Now, the dry hole which you have designated as Bivins—identified as Bivins B-2—

A. I didn't identify that; that is identified in the company's records.

Q. It is just Bivins 2?

A. It was completed—

Q. When was it commenced?

A. It was commenced on May 25, 1920.

Q. And it was completed when?

A. April 21st, 1921.

Q. I assume you mean that it was abandoned?

A. It was completed dry.

Q. Now, going to your schedule on Page 7, which has the heading "Development Cost," am I correct in presuming that those development costs are stated as of January 16, 1923?

A. That is correct.

Q. Now, excluding the well that was a dry hole, have you attempted here to allocate a cost of A. R. Jones & Associates, Mission Oil Company, and Amarillo Oil Company to certain specific wells as of January 16, 1923?

A. That is correct.

Q. Now, what kind of records did you find were maintained by A. R. Jones & Associates?

A. The records that were kept by A. R. Jones & Associates, so far as the dollar amount of expenditures were concerned, were in good order; so far as getting the usual facts used for the gas business, the items were not identified in very good order.

Q. What would you say about his classification of expenditures? Did he make any?

A. He made no classification of the expenditures. The expenditures were all entered in one account without making any distribution of those items.

Q. In order to arrive at your calculations, you were called upon to exercise some judgment in classifying his accounts?

A. I was not particularly interested in the classification that he made of the expenditures. I was more interested in getting the total original cost and all I needed to get was the dollar amount of expenditures.

Q. Would you say you could go to the books kept by Mr. A. R. Jones & Associates at that time and identify the expenditures that went into specific wells?

A. No, sir, I could not.

Q. Now, what kind of books and records did the Mission Oil Company keep?

A. The Mission Oil Company kept records quite similar to those now kept by Canadian River Gas Company in connection with the gas wells. In other words, they were what I would consider good records.

Q. You couldn't identify the expenditures with certain specific wells or properties?

A. In the books of the Mission Oil Company you could identify the expenditures.

Q. However, the Mission Oil Company never did complete any wells on these properties?

A. Well, from the dates I just gave, I would have to say that they didn't.

Q. I think that is correct. They participated in the wells, but—

A. Yes, I think there were some wells under construction but I am just relying on my memory for that.

Q. Let's go to the books and records of account of the Amarillo Oil Company reflecting its business and activities up to January 16, 1923. I believe you have already testified what the Amarillo Oil Company was incorporated at that time?

A. 1917.

Q. 1917?

A. Yes.

Q. Did the Amarillo Oil Company drill any wells between the dates of its incorporation and January 16, 1923—I mean, did they as an operator drill any wells on their own leases?

A. Well, Amarillo Oil Company actually drilled the first Masterson lease which—

Q. The first Masterson well?

A. Yes, they drilled the first Masterson well, which I have identified and is identified on the books as Masterson C-1.

Q. What is the other name for that well as it is commonly known on the records of the company?

A. The original name was Hapgood. That was the name of the individual who had the drilling contract for that well.

Q. The Amarillo Oil Company entered into a contract with a party by the name of Hapgood to drill the Masterson C-1?

A. That is right.

Q. I believe you have already testied that the well was completed in 1918?

A. Yes.

Q. Was it completed by Mr. Hapgood?

A. Hapgood, I was informed, did not complete the well.

and it was considered as one of the five wells completed by A. R. Jones & Associates.

Q. Mr. Jones did conduct the drilling operation that completed the well?

A. I wasn't specifically able to find any charges identified with that well in the course of the examination of A. R. Jones & Associates' books; however, Mr. Jones did tell me he did some work on it.

Q. And what form did the expenditures made by Amarillo Oil Company upon this well take?

A. By "form" what do you mean?

Q. Well, I will ask you a leading question: I assume that the Amarillo Oil Company paid the contractor some amount for the drilling of the well, didn't he? By "contractor," I mean Mr. Hapgood.

A. I know that Amarillo Oil Company paid Mr. Hapgood $20,000 in the way of drilling costs.

Q. Is that all of the original cost for that well that you credited to Amarillo Oil Company?

A. That is all that—no.

Q. I am speaking only of the Amarillo Oil Company.

A. I also show that Amarillo Oil Company paid Hapgood $9500 for the repurchase of a half-interest which they gave him in certain leases.

Q. Didn't Mr. Jones buy a quarter of Mr. Hapgood's interest for $9500? I believe that is the figure, isn't it?

A. Yes. Jones and Associates also paid a half of the half interest which Hapgood owned in certain acreage on which Well No. C-1 was located.

Q. Now, I will ask you this question: What kind of records did you find were kept and maintained by Amarillo Oil Company from the date of its incorporation down to January 16, 1923?

A. The records as a whole kept by Amarillo Oil Company from the inception of the company to January 15, 1923, were very poor and very inefficiently kept. However, there was a sufficient amount of information there, and that together with the information that I could get from A. R. Jones & Associates and the records of the Mission Oil Company, enabled me to determine quite accurately what the expenditures were that Amarillo Oil Company made.

Q. Would you be prepared to say that you found all of

the expenditures that had been made by the Amarillo Oil Company in connection with the acquisition and development of these properties?

A. I wouldn't say that I probably found all of them, but I am reasonably sure that what I have found will give a reasonably accurate result.

Q. What do you mean by "reasonably accurate result"?

A. I mean that the property that is involved in this proceedings is in the neighborhood of $20,000,000, and that if they were two or three thousand dollars off, I wasn't going to spend a great deal of time worrying about it.

Q. Well, suppose that you dropped out twenty or thirty thousand—strike that.

Suppose there were expenditures amounting to $20,000 or $30,000 which were not included here, would you think that of any importance in the final result of this proceeding?

A. It would be from your standpoint.

Q. Now, looking at this schedule on Page 7, Exhibit No. 146, do you intend to convey the impression that this division of cost on a well basis represents the true expenditures made with respect to each of these wells?

A. They are the true intangible costs with respect to the wells shown in this journal entry.

Q. Do you know, for instance, with respect to Masterson B-5, that $24,868.13 was expended for labor, teaming, and freight?

A. I do not, but the total of the labor, teaming, and freight column in the amount of $170,458.76 does represent all of the development costs applicable to the seven wells shown in that journal entry. That is the result of a proration that I made, based on the drilling charges, which I could get actually allocated to each well.

Q. What you mean to say is that you think the total for labor, teaming, and freight for the seven wells is correct but that the allocation of the total to individual wells is the result of estimates or proration you made?

A. Proration.

Q. On what basis did you prorate it?

A. It was based on the drilling charges. In other words, I was able to get the drilling charges allocated to their respective wells.

Q. Well, did your allocation take into consideration the depth of the well?

A. No. I might state this: The company has any number of similar situations in its well account. This is nothing unusual.

Q. You are purporting to set up here original costs allocated to specific wells and I want the record to be clear as to the basis of making that determintaion. You did the same thing with reference to drilling, would you say, in allocating as between wells or prorating between wells?

A. No, I found the actual drilling cost.

Q. Well, now, that is where I am confused. A. R. Jones had certain drilling costs; if I understand your testimony correctly, you could not take A. R. Jones' books and records and allocate his drilling costs to specific wells—

A. It so happened the drilling cost bills were so supported and explained in such a manner that the charges could be distributed by wells.

Q. On the drilling?

A. On the drilling charges.

Q. Now, with the exception of the drilling that was done on the Hapgood wells, by Amarillo Oil Company, A. R. Jones drilled all of these wells? I guess that is right?

A. (Pause.)

Q. A. R. Jones drilled all of the wells except the drilling done on the Hapgood well?

A. That is right.

Q. You were satisfied with your allocation of drilling cost of these wells as you found it on the books of A. R. Jones & Associates?

A. Yes, sir.

Q. You prorated the rest of the expenditures to labor, teaming, and freight, in proportion to drilling charges that you found?

A. Based on the drilling charges, yes.

Q. All right, now, you had a dry hole here which isn't shown but which was also drilled by A. R. Jones & Associates. How did you allocate drilling and other cost to that well?

A. I don't know. I have got all of the stuff in my papers and the figure I used was the result of summarizing all of the charges that I found against that well.

Q. How much did you take out of original cost for this dry hole?

A. I excluded my figure of $51,839.04.

The Trial Examiner: For that dry hole?

The Witness: For that dry hole, yes.

By Mr. Spencer:

Q. How much allocating or prorating did you do to get that figure?

A. I don't believe I did any.

Mr. Spencer: I would like to know the facts about that particular point; if it is ready and available.

The Witness: We will have to go through a lot of papers in order to get the facts.

Mr. Spencer: Suppose you make a note of it and get me the facts with reference to the component part of the $51,839.40 which you have taken out for the Bivins two dry holes and the basis that you used for any allocations, or prorations which might be involved.

Q. Now, this schedule covers only the development cost as of January 16, 1923?

A. That is correct.

Q. It wouldn't cover other costs that would be attached to the leasehold?

A. It does not cover the tangible costs which are related to these particular wells.

Q. Now, after you got through examining the books and records of A. R. Jones & Associates, Mission Oil Company, and the Amarillo Oil Company, what was the total amount of original cost which you determined was properly shown for these leasehold properties as of January 16, 1923?

A. "My examination of the records of Mission Oil Company at Kansas City, Missouri disclosed the actual legitimate expenditures made in accordance with agreement dated November 20, 1918 for the development of certain wells in the Amarillo oil and gas field. The records also disclosed the actual expenditures which were made to develop wells in addition to those specified in the agreement. Actual well costs as disclosed by the books of Mission Oil Company

were combined with the actual well costs as disclosed by the books of Amarillo Oil Company, and the total gas well investment resulting therefrom amounted to $368,928.65, representing intangible costs of $289,147.77 and tangible costs of $79,780.88. The gas well investment as shown by the books of Amarillo Oil Company as of January 16, 1923 amounted to $501,389.49, which was reduced in July 1923 to $497,462.69 by an adjustment in the amount of $3,926.80. The difference between the actual well costs as disclosed by the records and the costs set up as at January 16, 1923, the effective date of combining the assets, amounted to $128,534.04."

Q. What are you reading from?

A. That is some information I built up that covers the situation pretty well.

Q. This total—The total figures that you read, $368,928.65, would not include any leasehold costs?

A. It does not include any leasehold costs.

Q. Now, can you take the total figure of $368,928.65 and split that as between the three parties that contributed to it; namely, A. R. Jones & Associates, Mission Oil Company, and Amarillo Oil Company?

A. If I wanted to spend probably the rest of my life, I could do it. I was able to get the total amount of expenditures which each one of these companies spent on these wells that we have under discussion as of January 16, 1923, and an inventory was taken of the intangible equipment in those wells.

Q. Who took that?

A. Well, it was taken by Amarillo Oil Company or someone interested in it.

Q. I didn't understand you—

A. The tangible—

Q. Excuse me.

A. The tangible cost that was determined by that inventory was deducted by me from the total amount of these expenditures and the difference therein represented the intangible development costs. It is the same practice that has been used by the company in many other instances.

Q. You start with an inventory here and arrive at your figures by a process of differences; that is what you have to do?

A. No, that is not true. I had previous information

about the inventory because I had worked on the books of Amarillo Oil Company prior to my examination of Mission Oil Company and A. R. Jones & Associates. Now, then, having the information that there was an inventory taken as of that date, there was no need of me worrying a great deal about the accuracy in the distribution of the expenditures on these other companies.

Q. Now, you cannot take your total figure of $368,928.65 and break that down as between the three parties that contributed to it?

A. I could do it if I—

Q. Can you now?

A. No, I cannot—yes, I can give you the expenditure by each party but I can't give you the features that were involved in these expenditures.

Q. You mean you could give it to me in totals?

A. Yes, I could do that.

Q. Have you got that information available?

A. It will probably take me some time to dig it out.

Mr. Lange: You might make a note of that.

The Witness: If he wants it I will get it.

Mr. Spencer: I don't want you to work the rest of your life on this job. If this can be done without too much effort, I would like to have it.

The Trial Examiner: What you mean, Mr. Luttring, is that you could give him the total amount?

The Witness: Yes, the total amount that was spent by each company.

The Trial Examiner: But you couldn't in turn break down each total amount, is that it?

The Witness: Not within any degree of accuracy. I wasn't particularly interested in that. I wanted to get the total number of dollars legitimately expended on these projects.

Mr. Spencer: The point of my inquiry, Mr. Examiner, is this: He has arrived at a total figure for the three contributors of $368,000 plus; that is what they put into the property according to his findings, and he can't take that

figure and tell us exactly where every dollar of that went. As I understand his answers to my questions, he goes up here to another point of an inventory taken in 1923 and worked back by a process of elimination to arrive at these figures shown on Page 7. That is the reason I am trying to see how far he could go to break down the direct charges.

The Witness: If you will give me about fifteen minutes, I think I can give you all the kind of figures you will want on it.

Mr. Spencer: We might take a little recess.

The Trial Examiner: Perhaps if you would like to have it in the record at this point, it would be best to do that.

Mr. Lange: That is all right.

The Trial Examiner: Very well. We will stand in recess for fifteen minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Spencer:

Q. Now, Mr. Luttring, will you take your total original cost figure of $368,928.65 as of January 16, 1923, and break the total down as between A. R. Jones & Associates, Mission Oil Company, and Amarillo Oil Company, respectively?

A. The total expenditures for development of wells by A. R. Jones & Associates includes an amount of expenses incurred in the operation of gas wells of an indeterminable amount, $275,506.03; the total expenditures by Mission Oil Company, $25,113.08, a total of—

Q. The Amarillo Oil Company next.

A. The Amarillo Oil Company, $96,545.39.

Q. What is the total of those items?

A. Just one moment, please:

Now, those figures include the cost related to Bivins No. 2 dry hole on A. R. Jones & Associates and Mission Oil Company's books in the amount of $28,238.57. Deducting the dry hole cost, the total of the expenditures amounted to $368,928.65.

Q. What did you mean when you said that the figure

which you gave for A. R. Jones & Associates contains an indeterminate amount of operating expenses?

A. Well, I mean that they had started selling gas and the costs of operation during that time were included in this one property account. It was difficult to determine definitely the amount of such expenses.

Q. Well, in this schedule appearing on Page 7 of Exhibit No. 146, have you taken out anything to reflect the indeterminate operating expenses you mentioned?

A. I gave the company the benefit of the doubt.

Q. You took out nothing?

A. No, sir.

Q. What did you do with the revenues?

A. The revenues are out of these figures, out of the account.

Q. By deducting the A. R. Jones cost as you find the information of the Bivins No. 2 well which was a dry hole, you arrived at the total figure we had at the outset?

A. That is correct.

Q. Now, what did you do with Amarillo Oil Company's portion of the dry hole cost?

A. Amarillo Oil Company's portion was automatically dropped out because it was charged to surplus on their books.

Q. In other words, it didn't appear in the well account on the balance sheet of the Amarillo Oil Company?

A. That is right.

Q. All right. Now, can you take these last figures which you have given me and classify those? Do you understand my question?

A. No, I don't. It is not quite clear.

Q. All right, take the figure of $275,506.03 which represents the expenditures by A. R. Jones & Associates and break that down into labor, teaming, and freight, drilling, and tangible well costs as to each of the wells shown on this schedule, Page 7, Exhibit 146.

A. I can give you the classification as I made it; however, if six different persons went down there to distribute that property, they would probably get six different answers. There were so many of the expenditures which could not be accurately classified so that the results you would get would almost be meaningless.

Q. And the answer that you get or the answer that you have would be likewise different from the answer shown in the schedule on Page 7, is that not right?

A. Only in so far as the classification of the expenditures are concerned—

Q. That is what I am talking about—

A. —and not in the total of the expenditures.

Q. But the allocations to wells and different classes of property would be undoubtedly different than those shown in this schedule?

A. That is right.

Q. In making this sketch schedule on Page 7 you have relied largely upon a setup of well accounts, other property accounts, which were made in 1923 by a Mr. Iliff?

A. Will you read the question again, please?

(The question referred to was read by the reporter, as set forth above.)

The Witness: I relied very little upon Mr. Iliff's figures.

By Mr. Spencer:

Q. Well, you examined the accounting books and records of Amarillo Oil Company, did you not?

A. That is true.

Q. Now, turning to Page 8 of your exhibit, which has a heading "Balance Sheet of January 16, 1923," wasn't that setup taken from the books and records of Amarillo Oil Company?

A. The balance sheet was taken from the best available information on the books of Amarillo Oil Company and was reconstructed by this individual, Mr. Iliff.

Q. Well, the books and records of Amarillo Oil Company were reconstructed upon the setup recommended by Mr. Iliff, is that correct?

A. That is true.

Q. And you have used that setup as your base or starting point for your schedule on Page 7, isn't that right?

A. That is correct, yes.

Q. I don't mean to say that your schedule is entirely that, but you start from that point and use your other figures to arrive at a net deduction here?

A. These were the first reliable figures that were found relating to the Amarillo Oil Company.

Q. All right. Well, now, as long as we are on that, let's turn to Page 8 for a moment—one more question.

Did you agree with Mr. Iliff's classification of these accounts as of January 16, 1923?

A. No, I did not.

Q. You did not agree with them?

A. That was my reason for making this adjustment on Page 7.

Q. Did you agree with him except for the adjustments which you have recommended on Page 7?

A. Generally, yes.

Q. Now turn to Page 8. Explain what this data on Page 8 is and the purpose you had in mind for including it at this particular point in your exhibit.

A. This page is placed in here to show the cost that was set up for leaseholds as it was originally recorded on January 16, 1923. The account that we are specifically referring to here amounts to $421,608.61. At the bottom of the page is a summary showing from that figure is deducted an adjustment made by the company in July 1923, which adjustment relates to that item and after applying that adjustment, there is an adjusted leasehold writeup as of January 16, 1923, of $417,801.81.

Q. You have used the word there, Mr. Luttring, which also appears on page 8; to-wit, the word "writeup." In connection with the leasehold account which is stated here as $421,608.61, the same item appears on the bottom of the page, third line from the bottom. Is it true that the $421,608.61 represents a writeup of leasehold values on the books of Amarillo Oil Company?

A. We are speaking only of the leasehold account as it was actually written up by $421,608.61.

Q. What becomes of approximately $290,000 that you allow on these leaseholds?

A. I said th[illegible] so far as speaking only of the leasehold account it was actually a writeup; that is, to call it "leasehold," was in error.

Q. You mean to say that by the word "writeup" that a portion of it in your opinion represents values in excess of cost?

A. That is correct.

Q. That portion would be what?

A. On Page 7 the total of the development cost in the amount of $289,147.77 represents actual costs, which are included in that figure.

Q. And that is not a writeup to that extent?

A. That proportion is not a writeup.

Q. And the difference between that figure and the figure shown on Page 8, in your opinion, should be classified as a writeup?

A. That is correct.

Q. Now, going back a little further under the heading of "Liabilities," you have depreciation and depletion taken out as shown on the books of Amarillo Oil Company amounting to approximately $20,250, is that correct?

A. That is correct.

Q. And that is deducted from the original cost of these properties to Amarillo Oil Company?

A. It all depends upon what you mean by deductions.

Q. You do not show any similar item for depreciation or depletion under the column headed "Mission Oil Company"?

A. We do not show any depletion or depreciation for the Mission Oil Company—

Q. They owned a half interest—

A. —which I think is to the benefit of the company.

Q. Do these items of depreciation shown there in this exhibit operate as deductions from plant account of Canadian River Gas Company, these depreciation items shown here?

A. We have carried those depreciation items right through into Canadian River Gas Company.

Q. Are you—you picked those up later?

A. Yes, sir. You understand that we are talking about depreciation reserve there?

Q. Yes, sir. I want to take you to the dry hole you have eliminated from this schedule on Page 7. That dry hole was drilled pursuant to contract, was it?

A. It was drilled under a contract, yes. If I remember correctly, Greenlees-Dick Drilling Company did the work.

Q. Was the well drilled to explore and develop these properties?

A. No more so than a Bivins C-1 and D-3 wells; how-

ever, I believe that I saw some records showing that this well was drilled deeper than some of those other wells.

Q. Well, it—

A. And to that extent it might have been exploratory

Q. Would you know of any other purpose for which the well might be drilled except to explore and develop the lease upon which it was located?

A. It may have been drilled to determine the fault line of the field.

Q. Could that purpose be classified as development?

A. Expense.

Q. On what lease was this well located?

A. Bivins No. 2?

Q. Yes.

A. It was in Section 2, Block 20, G & M. I don't have the county here—

Q. That is sufficient—

A. —but I rather think it is in the same neighborhood as C-1 and D-3.

Q. That is sufficient on the location. I wondered if you had the lease number there so that we could identify the lease.

Let me ask you this question: Do you know whether or not the well was drilled to comply with the lease obligation?

A. I did not examine the lease.

Q. Now, I believe you have a note there that I want further information about and that is the cost of this particular well. How was the cost of this particular well determined by you?

A. I have that.

Mr. Lange: You have a definite note on that?

The Witness: Yes, I have it written down.

By Mr. Spencer:

Q. Tell me, now—

A. May I add this: This dry hole was completed after Amarillo Oil Company had made sales of gas.

Mr. Spencer: Wait a minute. We'll come to that in just a little bit. All right, I'll ask you that question: Why do you eliminate this Bivins 2 dry hole from your schedule of original cost on Page 7 of Exhibit 146?

A. First because it was drilled after the so-called development period and the company had actually engaged in operations, and since they had engaged in actual operation it becomes a charge to the exploration expense account.

Q. All right, now, what is the development period of Amarillo Oil Company as you have determined it for the purposes of this schedule on Page 7? What is that period? When does it start and when does it end?

A. The development period would end in December 1920.

Q. And would start when?

A. I wish to change that date. I'll make it October 1920. That was the month in which the gas was first sold.

Q. We'll come to that in a little bit.

A. I beg your pardon?

Q. We'll come to that in just a moment. I want to find out about the development period first. You say it ended October 1920. It commenced when?

A. It commenced at the time they started to drill the Hapgood well.

Q. Sometime in 1918?

A. 1918.

Q. Now, have you got a definition of what constitutes the development period for the purpose of making the determinations such as you have made here?

A. I think what I have already described pretty well states what I determined as the development period to be.

Q. Well, then, am I correct in assuming that from your standpoint the development period is over on the first date the gas is marketed?

A. That is correct.

Q. Is that your conclusion or do you have some other authority for that statement?

A. That is my conclusion. They did sell some gas prior to that time for other drilling operations, but I haven't considered that in determining the end of the development period.

Q. Well, you can point to nothing in this Uniform System of Accounts promulgated by the Federal Power Commission which supports you in your conclusion that the development period for an entire property ceases on the day the gas is first marketed from such property?

A. That conclusion is my own.

Q. Now, do you reach that conclusion by employing what you have learned in accounting or do you go outside of the field of accounting to arrive at that determination?

A. In this instance I relied mostly on accounting. I did have additional knowledge of the fact that they did sell gas—

Q. That is admitted, Mr. Luttring, they did sell gas. I am trying to explore with you your ideas about the effect of selling gas.

Mr. Lange: Mr. Spencer, if I may interrupt, I think the witness was going to state to whom gas was sold and he didn't finish that.

Mr. Spencer: I'll cover that in just a little bit here.

Mr. Lange: I see.

Mr. Spencer: If I forget, you remind me of it.

Mr. Lange: All right.

The Witness: I may say this, that I also had knowledge that the first five wells drilled gave ample production to serve a customer to which they later sold the gas.

By Mr. Spencer:

Q. Well, now, do you think a potential gas supply also serves to end what you have called the development period for a company?

A. It would have some bearing in the case.

Q. Well, where do you get that from? your accounting experience, or from the Uniform System of Accounts and the Federal Power Commission, or what other source?

A. Well, I just used my own judgment.

Q. Doesn't the determination of this particular question have something to do with rate making?

A. No, I don't think so.

Q. In other words, if we weren't involved in a rate proceeding, you would have done precisely the same things that you have done here if you were auditing the books of the company?

A. Yes, sir.

Q. You would have written off a dry hole. You would have made no attempt to capitalize it?

A. Under the same conditions I would have done exactly the same as the company had done in this instance.

Q. Would you consider yourself to be a rate expert?

A. No, I do not.

Q. Then, what you have done here with respect to determining the development period at the time, at the end of which the company was precluded from capitalizing dry holes, has been based upon your own judgment?

A. That is correct, in this instance.

Q. In this instance. That's all I'm talking about.

A. Yes.

Q. Now, let's get to the sales of gas that you have mentioned. You said you made your determination based upon the sale of gas by Amarillo Oil Company, I assume you meant in October of 1920?

A. That's right.

Q. And to whom was the sale made?

A. Some of the early bills or records showed that the sales were made to Amarillo Gas Company. Later on the sales were made to Panhandle Pipe Line Company.

Q. Well, in the first instance they were made to Amarillo Gas Company?

A. That is correct.

Q. In October of 1920. Was that pursuant to some contract?

A. I don't know what the agreement was.

The Trial Examiner: Was the Amarillo Gas Company a distribution company?

By Mr. Spencer:

Q. Do you know the nature of the business of the Amarillo Gas Company?

A. It distributes gas in the town of Amarillo, Texas.

Q. Where was the sale made in October 1920?

A. By that do you mean—

Q. The point of delivery.

A. I don't know.

Q. Do you know whether or not Amarillo Oil Company had any pipe line system of any character in 1920?

A. Amarillo Oil Company did not own any pipe line at that time.

Q. So if it were going to deliver the gas it probably wouldn't deliver it from any pipe line, is that not correct?

A. Yes, there would have to be a pipe line of some sort.

Q. Did they have any facilities to deliver the gas at any

—did they have any facilities with which to deliver gas except the well head?

A. Not up to January 15, 1923, if that's the date you refer to.

Q. What wells furnished this gas to the Amarillo Oil Company?

The Trial Examiner: You said "Amarillo Oil Company." Did you mean "Amarillo Gas Company"?

Mr. Spencer: Amarillo Gas Company. Thank you.

The Witness: The wells that furnished the gas are Masterson No. 1; Masterson No. 2; Masterson No. 3, and Masterson No. 4.

By Mr. Spencer:

Q. 1, 2, 3 and 4, and Masterson 5, Bivins C-1 and Bivins D-3, were not involved in those sales, is that correct?

A. Not in the early sales.

Q. Not in the early sales.

A. Bivins did not start to sell gas until I think it was about 1923.

Q. You have used the phrase here that we have discussed heretofore "devoted to a public use." I think it is found in the Code of Accounts. Do you consider the sale of gas at the well of such significance as to devote the well and the lease on which it is located to a public use?

A. If the gas was ultimately used by consumers, I would.

Mr. Lange: And your reason for that conclusion?

By Mr. Spencer:

Q. And what is your reason for that conclusion?

A. Oh, the reason is that we are chiefly interested in whether the gas goes to the consuming public or not.

Q. Do you think that anyone that sells anything to a public utility thereby devotes their property to a public use?

Mr. Lange: I think that, of course, is getting a little beyond this impale. I think he can give him—or, rather, ask the witness in what facts he determined the public use as far as these properties are concerned, but going beyond the pale of this investigation entirely, I don't know whether that would be a fair question to ask.

Mr. Spencer: I'll withdraw that question. I'll ask him this one:

Q. You have stated that in your opinion, if the company sells gas at the well which is ultimately distributed to public consumption, that that operation or transaction in your opinion would devote the well and the leasehold upon which it is located to public use. I am not misunderstanding you about that. Is that right?
A. Not necessarily. Are you assuming that the parties in this transaction are different parties?
Q. I am making no assumptions at all. If you want to qualify your answer, the record is open. I understood you to say that in your opinion under the conditions you named the property would be devoted to a public use. Now, if you want to amplify that, I'll suggest that you do that.
A. Read that question back there.

(The record referred to was read by the reporter, as set forth above.)

The Witness: Yes, it would be my opinion that the well would be property devoted to public use.

By Mr. Spencer:

Q. All right. I'm a coal dealer and I sell coal to an artificial gas plant. The artificial gas is ultimately distributed for public consumption. Is my coal property, my business, devoted to public use?
A. That is an entirely different situation. The public has no control over your coal fields.
Q. What control does the public have over my gas wells in 1920?
A. Well, through a regulatory body in most states.
Q. Oh, do you now testify that there was some regulatory body in the State of Texas that could regulate the control of the gas well—the gas leasehold operations in 1920 as public utilities?
A. I don't mean to testify—if they didn't have one, I think they should have.
Q. Oh, my goodness. Well, when you start making determinations as to what constitutes devoting a property to a public use, Mr. Luttring, you are getting into the field of rate making, are we not?
A. Yes.

Q. And you have already testified that you weren't a rate expert?

A. That is correct.

Q. Your particular function here is an accounting function?

A. My particular function is to make a study of original costs as it applies to this particular proceedings.

Q. Is there anything in the Code of Accounts of the Federal Power Commission which specifies when a gas well—a gas leasehold shall be considered to be devoted to a public use?

A. I have never seen any in the classification.

Q. So that all of these determinations on that particular subject are the result of your own judgment?

A. It is my own judgment.

Q. Turn to Page 81 of your exhibit, please. Will you go down there on this schedule of gas wells as of December 31, 1939 until you find the Masterson C-3 well on Lease 58 and there you and Mr. Teel have made a determination as to when gas was first marketed from this well and the date that you find there is April 24th, 1923, and you have just testified here that it commenced marketing gas on Masterson C-1 well in 1920.

A. Well, I have a letter from Mr. Jones' file that says that,—

Q. Well, let's see the letter.

Mr. Spencer: May I talk to him off the record here?

The Trial Examiner: Certainly.

(Discussion outside the record.)

Mr. Spencer: Well, Mr. Examiner, there is an apparent discrepancy in the data which I have read from Page 81 and Mr. Luttring's testimony, and I would suggest that he check that and we can find out whichever is correct. Will you make a note of that, too, Mr. Luttring?

Mr. Lange: Make a note of that to check that later.

By Mr. Spencer:

Q. Have you got any data there on the quantity of gas that was marketed in October, 1920?

A. Yes, I have the entire gas production of Amarillo Oil Company in our working papers from the time that they

started to sell gas up to the time that the properties were transferred to Canadian River Gas Company.

Q. Your only basis for ending the so-called development period and limiting the time during which the company might capitalize the dry hole is based on the proposition that it commenced to sell gas in October 1920 to another company which distributed that gas to consumers in the city of Amarillo?

A. That is correct.

Q. Well, do you know what disposition the Amarillo Gas Company made of the gas? Do you have that in your working papers, too?

A. No, I do not.

Q. You are not able to say, then, whether they sold the gas that they purchased to industrial consumers, commercial consumers, or domestic?

A. Only through such information as I probably noticed in my examination.

Q. Was there any corporate or other relationship between Amarillo Oil Company and Amarillo Gas Company in 1920? Do you know?

A. I do not know.

Q. So the development period had ended in October 1920 and this well, Bivins 2, being a dry hole and having been drilled subsequent to that date, is excluded from your schedule on Page 7?

A. That is correct.

Q. Suppose, Mr. Luttring, that in the Bivins C-1, which you do include in your schedule on Page 7, had got into some casing difficulties after they had drilled down five hundred feet and they skidded the rig a hundred feet and started drilling again and then completed the gas producer. What would you have done with the cost of drilling the first five hundred feet where they encountered casing difficulties?

A. I would let it go into the cost of the second well.

Q. You would let it go into the cost of the second well?

A. Yes, sir.

Q. Well, now, let's see, the Bivins 2, we got down there and we got into plenty of difficulty and we took that rig over and we drilled the Bivins 7, not very far from that. That's a little longer skid but we're over there with the rig and everything. Is that a different situation?

A. You drilled an entirely different well.

Q. Well, we drilled a different well in the first instance that I mentioned to you. It is a different hole. I am starting two holes in both cases here, and in the first case you say I am all right, it goes into the well account.

A. In the first case, if you start a well and for some reason you have to stop it, that is, through an act of God, those charges I would permit to be included in the cost of a second well if that second well were drilled somewhere in the neighborhood of that first one.

Q. Well, as a matter of fact, this well turned out badly, Bivins No. 2, and they did move the rig and start another well. It wasn't a hundred feet, but it was in the vicinity of the other well. That is, it was a continuous drilling operation as far as your rig is concerned; is it not the same as it was in the first case I mentioned to you?

A. If those charges are in Bivins No. 2 and a well was completed dry, why, I would charge them to exploration costs.

* * * * *

Continuing, Mr. Luttring further testified: (Vol. XXXIX, pp. 5329-5359.)

Q. We had this morning, Mr. Luttring, two requests, I think, for additional information. Are you prepared to do that now or do you desire to do it later?

A. I have the information regarding the Masterson C-3 well. I was in error in stating that Masterson C-3 well was one of the wells from which the original production was taken to furnish gas to the city of Amarillo.

Q. Well, now, as you gave it in your testimony you said Masterson 1, 2, 3 and 4, as I recall.

A. That is correct.

Q. And you should eliminate—

A. And you should eliminate the 3.

Q. Leaving Masterson 1, 2 and 4?

A. That is correct.

Q. All right, and the other request that you made a note about?

A. The other one was on costs on that Bivins No. 2 dry hole.

Q. Yes, sir.

A. I haven't got all that compiled for you.

Q. Do you wish to furnish that later?

A. Yes.

Q. That's perfectly all right.
A. I'd prefer, if you wish, to get together with you on it.
Q. All right, we can do that, then.

Now, you gave this morning "April 23rd, 1922" as the commencement date and "December 2nd, 1922" as the completion date of the Bivins 2 dry hole.

A. No, those were the dates for Bivins D-3.
Q. Then I am in error. Will you give me again, then, the date of commencement and the date of completion of the Bivins 2 dry hole?
A. The date of commencement of drilling Bivins No. 2 well was May 25th, 1920 and the date of completion was April 21st, 1921.
Q. That conforms to my figures. I was in error.
A. That well, consequently, was drilled down to 3640 feet.
Q. I don't think there are any further questions regarding the commencement and completion date, except that the well had been commenced and expenditures had been made on the well prior to the date which you fix as the end of the development period.
A. The dates I have here were taken from some log records that were in Jones' files.

Mr. Spencer: Read the question.

(The question referred to was read by the reporter, as set forth above.)

The Witness: That may be true, as I just stated. These statements I have given you are the dates shown on log records that were in Jones' files.

By Mr. Spencer:

Q. Well, the end of the development period as you fix it is October 1920.
A. That is correct.
Q. And this well was commenced in May of 1920 according to the records of the company.
A. That's right. This well wasn't under that original agreement.
Q. I am not sure that it was, Mr. Luttring, and I'm not sure that you are correct in that respect, but if you are not correct about it I think it is a result of misinformation

that we gave you at the time you were examining our records about it, so I am not going to cross examine you any further about that point, and whatever we have to say about it will come in in the way of rebuttal to correct the record. I am sure you have in here the information about it that we furnished. We may have been in error in the information we furnished at the time.

Now, you have fixed October 1922 as the end of the development period—1920, I beg your pardon—as the end of the development period because the gas was first marketed from three of these wells at this time which was distributed by Amarillo Gas Company, is that correct?

A. That is correct.

Q. By the way, do you know whether the sale was made to Amarillo Gas Company or some other company?

A. The record shows that the sales were made to Amarillo Gas Company.

Q. Did you see the contract under which the sales were made?

A. I did not see the contracts.

Q. And you have fixed this date of October 1920 as being the time on which these properties were devoted to a public use, as I understood you this morning, for the reasons which you stated?

A. That is correct.

Q. And you arrived at that determination fully on your own judgment?

A. That is right.

Q. And in making that determination as to dedication or devotion to public use, does it embrace or include all of the wells and properties of the Amarillo Oil Company at that time?

A. Yes, it does.

Q. How many wells did they have on that date? Amarillo Oil Company?

A. Six wells.

Q. And what was the open flow capacity of those wells on that date?

A. I am not prepared to answer.

Q. Do you know what the relationship of open flow capacity was to the market demand of Amarillo Gas Company at that time?

A. I do not.

Q. How much acreage—leasehold acreage, did Amarillo Oil Company have at that time—approximately, Mr. Luttring. I don't care for—

A. 25,000 acres.

Mr. Spencer: I think you had better check that figure, Mr. Luttring, as I think you are too low.

The Witness: Well, my records indicate that they might have had about forty-seven thousand acres. I don't have anything specific on it at that particular date.

Mr. Spencer: I think that is still too low, Mr. Luttring, and if you desire you can check it later and we can correct the figure in the record if you want to. I think the initial acquisition of leasehold acreage by Amarillo Oil Company was between seventy and eighty thousand acres.

The Witness: Well, they did sell a lot of acreage.

Mr. Spencer: I believe you will find the company has an excess of forty-seven thousand acres at this time. You can check and if you care to correct it you can do so.

Q. Now, am I correct in stating that—from what you have heretofore testified—that since the properties of Amarillo Oil Company were dedicated to the public use in October 1920 by the sale of gas from its wells which was ultimately distributed in Amarillo, that subsequent to that time in your opinion all of the properties it acquired and all of the wells it drilled were likewise dedicated to a public use?

A. That is correct.

Q. Are you prepared to say at any point in these operations how much other acreage or how many of the wells or how much of the open flow of these wells was used or useful in serving the Amarillo market?

A. No, I do not have that information.

Q. Have you read the Natural Gas Act pursuant to which these proceedings are being conducted?

A. Yes, I have.

Q. Do you find in that Act that Congress has found that properties used in the producing of natural gas are devoted to a public use?

Mr. March: I object to that question on the ground that it is purely a legal question and involves a construction of the Act. The Act speaks for itself and I think the witness is not qualified to make any legal construction of the Act. It is a legal question for a lawyer to do.

Mr. Spencer: I think there is something to what you say, Mr. March, but he has embarked upon a program of finding out when properties are devoted to a public use and if it involves some legal interpretation he is apparently attempting to do it. I am just trying to find out what he knows about it.

Mr. March: We don't object to asking the witness what he did about it or what his conception is of public use. The fact of the business is, the witness has been asked that already, but we object to asking this witness legal questions involving construction of the Federal Power Act. When he used "public use," he was using it in regard to his accounting report and we certainly object to the question. It is obviously a legal question.

The Trial Examiner: The Examiner is rather inclined to sustain the objection.

Mr. Spencer: And all similar questions along that line relating to what the Act has to say?

The Trial Examiner: I think, Mr. Spencer, that to inquire of this witness as to the provisions of the Natural Gas Act is somewhat outside the qualifications of the witness.

By Mr. Spencer:

Q. Let me ask you this one question on that point, then, Mr. Luttring: I take it from your testimony heretofore given that you arrived at your determination as to the devotion of these properties to public use without reference to anything that was said in the Natural Gas Act?

A. That is correct. As a matter of fact, I arrived at that conclusion in our discussions here this morning.

Q. And the conclusions are entirely yours with respect to these dedications or devotions to public use?

A. That is correct.

Q. Have you ever had occasion to sit as a member of any Board or Commission in a rate hearing case?

A. No, I have not.

Q. Have you had any previous experience in a rate proceeding of this character?

A. No, I have not.

Q. Have you made any particular study of the subject of the properties being imposed with a dedication to public interest by reason of their use?

A. None other than what I have read in connection with my work.

Q. Just what you have read on the subject?

A. Yes, sir.

Q. Was the Bivins 2 dry hole of any value to the company in your opinion?

A. Only in determining the location of the fault line.

Q. Might not the drilling of that well have saved the company other losses in drilling wells at the wrong locations?

A. Well, my answer to the other question would fit this one, too.

Q. Your answer is what?

A. My answer is that it would help determine the fault line of the field.

Q. Therefore, the company did acquire geological information regarding the acreage it held through drilling of the well?

A. Without question.

Q. And that would be of some value to the company?

A. There is no doubt about it.

Q. And if, per chance in your opinion this well which was started in May 1920 had been completed prior to October 1920, would it have been proper to have included it as a capital investment?

A. No, sir, because it was not included in the original agreement to drill those first five holes.

Q. Assuming it wasn't in there—it may develop it was—but assuming it wasn't among the first five wells, in your opinion it would not have been proper to have capitalized the dry hole even though it had been completed during the development period?

A. That is correct

Q. I understand—

A. If it were one of the wells originally in the first group I would have probably consented to its capitalization.

Q. Isn't any well drilled in a development period prior to the time a company commences regular business operations a proper charge to capital

A. The company had already commenced business before this well was completed dry.

Q. You have found that the sale of gas of sufficient magnitude to be dignified by the term "business" didn't start until October 1920, is that correct?

A. That is correct.

Q. Unless I misunderstood you, if this well had been completed prior to that date as an exploratory well, it would have been proper to capitalize it?

A. That is correct, providing it was in that original group of wells that were drilled on the Masterson lease.

Q. Well, it couldn't have been—

A. Or if this particular well had been a part of that original contract.

Q. Well, let's leave it that way and see how the evidence develops.

Now, Mr. Jones and his associates sold their undivided half interest in the wells and leaseholds of Amarillo Oil Company to the Mission Oil Company on May 1, 1922, is that correct?

A. That is about the right date.

Q. Do you know what price Mr. Jones and his associates received for the half interest?

A. They sold it for $420,000 to Mission Oil Company.

Q. Cash?

A. They issued preferred stock, I believe.

Q. Which was subsequently retired for cash?

A. Perhaps, I didn't go that far into the records of the Mission Oil Company.

Q. Now, assuming that Mr. Jones and his associates did receive $420,000 for their half interest in the property, in his property, does that in any way indicate the value of that half interest?

A. No, it does not.

Q. Why not?

A. In the first place, Jones and the Mission Oil Company are one and the same person; they had already devoted this property, as I stated before, to public use, along with the Amarillo Oil Company, and the original cost thereof would be carried on through.

Q. And when you say that they had devoted their interests in the company to public use, the same as Amarillo Oil Company, you are referring to your previous testimony this morning on that?

A. That is correct.

Q. That is the only manner in which you mean they would dedicate it to a public use?

A. That is right.

Q. When the Mission Oil Company sold its half interest, which was acquired from Mr. Jones and his associates, to the Amarillo Oil Company on January 15, 1923?

A. That is right.

Q. And what did the Amarillo Oil Company pay for that half interest?

A. They paid one-half of their capital stock.

Q. Being how much stock?

A. I think the total capital was $20,000—

Q. No,—

A. —after this deal was consummated of which Mission Oil Company got $10,000.

Q. You mean 20,000 shares at a value of one dollar per share?

A. I don't recall the value per share, but the total authorized capital is $20,000 after the consummation of this deal. Half of that stock was issued to Mission Oil Company.

Q. At the time of the merger of the two half *interest* in Amarillo Oil Company, were there any common stockholders, or, I should say, stockholders in common between Amarillo Oil Company and Mission Oil Company?

A. Well, I don't know that.

Q. Do you know what the market value of the stock of Amarillo Oil Company was on or about January 15, 1923?

A. I am not concerned with it.

Q. That wasn't my question, if you please. Do you know?

A. No, I don't.

Q. Do you have any knowledge of the value of the property of Amarillo Oil Company—

A. No, I don't.

The Trial Examiner: Mr. Luttring, please let him finish his question.

Mr. Spencer: Strike the question and I will start again.

Q. Do you have any knowledge of the market or fair value of the properties of Amarillo Oil Company—

A. I do not.

Q. —on or about January 15, 1923?

A. No, I do not.

Q. One other question: Did the Southwestern Development Company ~~or the~~ Standard Oil Company of New Jersey, or the Cities Service Company, own any stock in Amarillo Oil Company or Mission Oil Company as of January 15, 1923?

A. I don't think they did.

Q. These figures on Page 7 in your schedule, Exhibit No. 146, contain an allowance for interest or overhead?

A. Only what was shown in the expenditures which I have taken off the records of the various companies involved herein.

Q. Well, did you get any interest or overheads from the accounts of A. R. Jones & Associates?

A. There was some in there.

Q. How much?

A. I am not prepared to tell you the amount.

Q. Is it a material amount?

A. It is not a material amount.

Q. Did you get any interest or overhead on the accounts of Mission Oil Company?

A. If there is any, it is not material.

Q. And is the same answer applicable to Amarillo Oil Company?

A. That is true.

Q. The same answer is applicable to all three of them?

A. Yes. I might say in connection with that that I am almost certain that the interest, if any, was charged to the income or surplus accounts of those companies.

Q. That is, it wouldn't find its way into these plant accounts—it didn't find its way into the plant accounts?

A. I never reclassified any of the income accounts or included any part of those items in these figures.

Q. Do you think you should have done that in order to have made a complete audit?

A. No, sir.

Q. Why not?

A. Because I don't feel that it is my responsibility to reclassify those types of items charged to the income accounts of these companies.

Q. You feel that it is up to us?

A. Yes, sir.

Q. Now, Mr. Jones and his associates commenced drilling these wells in 1918, is that correct?

A. That is correct.

Q. And in accordance with your determinations the first sale of gas was about October of 1920. Did Mr. Jones and his associates receive any income from money they had invested in these operations up to that time?

A. They received some income from gas sold to other companies for drilling purposes.

Q. Field sales?

A. That is correct.

Q. The first field sales you find as late as in the year 1920?

A. In October, 1920.

Q. Up to that time neither Mr. Jones or the Amarillo Oil Company had drawn any income from the operations of those wells?

A. No. The income I stated was from the field sales and it was the only income they had up to the time of the sales in October 1920.

Q. Well, the field sales, was that for a material sum? Did it represent a material income?

A. It was about five or six thousand dollars.

Q. When did that start?

A. 1939.

The Trial Examiner: Did you say 1939?

The Witness: I should have said 1919.

There were field sales in the amount of $3,875 received by Amarillo Oil Company and a similar amount received by Jones & Associates.

By Mr. Spencer:

Q. In 1919?

A. In 1919.

In 1920 $1,230.63 was received by Amarillo Oil Company and the same amount received by Jones & Associates.

Q. When you speak of field sales, do I understand you to mean sales in the field primarily used for the purpose of drilling other wells?

A. Yes, that was the term I used.

Q. Now turn to Page 7, please, of your Exhibit No. 146. The first entry you recommend is Gas Well Investment, debit, $289,147.77. That is tantamount to a reclassification, is that correct?

A. That is correct.

Q. That figure you bring up from your total figure under schedule of development cost?

A. That is right.

Q. That is what you are going to recommend be allowed here as original cost for intangible well expense on these particular wells?

A. That is right.

Q. Now, the balance of the cost set up as cost on Amarillo Oil Company's books of $128,534.04, you take out of the plant account and debit to the gas plant adjustment account No. 107?

A. That is correct.

Q. Why don't you charge the amount of $128,534.04 to account No. 100.5, Gas Plant Acquisition Adjustments?

A. Because it is a pure writeup.

Q. A pure writeup?

A. That is correct.

Q. You don't think this represents the difference between cost to Amarillo Oil Company as an operating unit or system by pure merger, liquidation, or otherwise, and the original cost of the property?

A. No, sir, I do not.

Q. You put it down under Account No. 107 because it says down in the last sentence under the lettered paragraph "A", "Writeups of Gas Plant prior to the effective date of this system of accounts shall be recorded herein"?

A. That is right.

Q. If the Amarillo Oil Company had paid to someone else, Jones, Mission, or someone else, the difference of $128,-534.04, then you would have included that under Account No. 100.5?

A. Not if someone held half interest in the situation we had there; the transaction would still be the same. You have two parties in this case equally interested in a certain piece of business and all they have done is to combine those businesses.

Q. They combined their interest but one bought something and the other sold something?

A. They both went into business at the same time.

Q. I know, but the Mission Oil Company exchanged a half interest in properties for stock. It sold—

A. Surely, that is the way a lot of deals are made in the public utility business.

Q. It wasn't a merger, was it?

A. They could have written that up here if they would have wished to.

Q. Did you think that Amarillo Oil Company was a public utility at that time?

A. I considered that they devoted their business to a public use.

Q. And, likewise, the Mission Oil Company?

A. That is correct?

Q. Likewise, A. R. Jones & Associates?

A. That is correct.

Q. Now, your determination as to whether or not this particular adjustment should be charged to Account 100.5 or 100.7 represents all of your own judgment in the matter?

A. It is based on the fact I developed in this examination.

Q. The decision is wholly your own?

A. Absolutely.

Q. You weren't told by anybody else where to put it?

A. No, sir.

Q. It was your judgment that that is where it should go?

A. That is correct.

Q. In 100.7, "Gas Plant Adjustments"?

A. That is right.

Q. Because in your opinion the excess here which you

have found represented nothing but a writeup over and above original cost of the parties involved in the transaction?

A. That is correct.

The Trial Examiner: Before you leave that caption, Mr. Spencer, I believe I have a question or so to ask the witness.

Mr. Luttring, in response to a question asked by Mr. Spencer this morning, you stated that you had available the deliveries of natural gas made by these particular wells that were discussed this morning by the Amarillo Oil Company, I believe it was, to the Amarillo Gas Company?

The Witness: You are referring to the production figures?

The Trial Examiner: The deliveries.

The Witness: Yes, I do have.

The Trial Examiner: Do you have them handy so that you can get them?

The Witness: Yes.

The Trial Examiner: I wonder if you would put those in the record for the first five years?

The Witness: The production in M cubic feet—

Mr. Spencer: Excuse me, Mr. Examiner, do you intend that an exhibit be made of this?

The Trial Examiner: No, I just thought that—

You have the totals by year?

The Witness: Yes, sir.

The Trial Examiner: I thought, Mr. Spencer, that I would like to have the totals for the first five years that deliveries were made. I thought he could read it into the record.

Mr. Spencer: If he is going to do that, I want to know where every foot of it went, the volume, and the whole works about this particular compilation. I have no objection to it going in if it is put in in such a manner that we can tell

exactly what gas we are talking about, where it was delivered, to whom it went, and for what purpose it was used.

The Trial Examiner: Well, as I recall, the witness stated that he could go no further than to say that the sales were made to the Amarillo Gas Company. The only purpose for making that inquiry, Mr. Spencer—I don't mind stating it—is to get the picture of the volume of those deliveries in the first five years.

Mr. Spencer: May I suggest this, Mr. Examiner: Mr. Luttring can at his convenience make up a schedule containing that character of information, and we can look at it, and if it is one that answers your purpose and is not objectionable to me, we can put it in as an exhibit. How would that be?

The Trial Examiner: That is perfectly all right.

Mr. Lange: It is all right.

Mr. Spencer: I just don't like to have figures in the record unless we know all about them.

The Witness: Is that all, Mr. Examiner?

The Trial Examiner: Except I believe you stated this morning that your only knowledge of the Amarillo Gas Company was the information you obtained from an examination of the books of the Amarillo Oil Company?

The Witness: That is correct.

The Trial Examiner: You don't know, for example, the year that the Amarillo Gas Company commenced operation?

The Witness: No, I don't.

The Trial Examiner: I think that is all.

Mr. Spencer: I will stipulate that information for the Examiner: I think it was 1906. They operated an artificial plant for a good many years up until the time they commenced getting natural gas from the Panhandle field.

The Trial Examiner: I see. Had they purchased gas, natural gas, prior to the time they purchased this gas from the Amarillo Oil Company?

Mr. Spencer: This is the first purchase for the City of

Amarillo. That is so because the Amarillo Oil Company drilled the first well in the Texas Panhandle field and made the discovery well.

The Trial Examiner: I see.

By Mr. Spencer:

Q. Now turn to the Adjusting Entry No. 201.
A. Yes.
Q. In this entry you take out of our plant account and charge to surplus approximately $152,000 which represents what you have described here as delay rentals, is that correct?
A. That is correct.
Q. And I believe you defined delay rentals as being a rental paid by a lessee or operator to a lessor for the purpose of deferring drilling obligations pursuant to some provision of the lease?
A. That is correct. Making a little further study of this, I discovered there were no delay rentals in these figures. They are——
Q. Your heading "Delay Rentals" is a misnomer?
A. Not exactly a misnomer. We have considered that renewal bonuses are in the nature of a delay rental.
Q. "We have considered," meaning what?
A. Meaning I have considered.
Q. That is an editorial "we"?
A. That is a hangover from the accounting profession.
Q. You have concluded that bonuses paid to renewal leases are in the nature of delay rentals and therefore should be treated the same as delay rentals?
A. That is correct.
Q. And that again is solely your own judgment or conclusion?
A. It is my conclusion based on my experience in the business world.
Q. Your experience with oil and gas leases, for instance?
A. To some extent, yes.
Q. Is there anything in the Code of Accounts that says —I am speaking of the Code of Accounts of the Federal Power Commission—consideration paid for the purpose of obtaining a new lease or renewing an old lease shall be treated as delay rentals?

A. It infers that.

Q. Where do you get the inference? Find the place for me.

A. In view of the fact that a lease is renewed—

Q. Now, look here—go ahead. Excuse me.

A. —and a renewal bonus is paid, that particular bonus is in effect a rental since it continues the lease in existence.

Q. What I want is your inference out of the Code of Accounts.

A. In the first place, the renewal bonuses are not a first cost of leases. Therefore, they are not original cost. We have no objection—rather, I have no objection to considering the first cost of the lease as a proper cost in the plant account. Any bonus paid on that same lease in my opinion should be charged to expense account.

Q. Well, let's come back again. Show me where you have gotten your authority for that out of the Code of Accounts.

A. On Page 82, Account 510, "Delay Rentals:"

"A. This account shall be charged with the amount of rents paid periodically on natural gas lands in order to hold natural gas land and land rights for the purpose of obtaining a supply of gas in the future."

Now, the rental bonus is in the form of a rent paid periodically.

Q. Your putting all of that last sentence into the record, that doesn't appear in the part which you quoted?

A. Oh, no, that is my interpretation.

Q. As a matter of fact, what you have quoted from the Code, in no place does there occur the words "renewal bonus," or "bonus renewal," or anything of that character?

A. No, sir.

Q. You have taken the words "delay rentals" and then in your own mind convinced yourself that a bonus paid for the purpose of renewing the lease should fall in the same category as delay rentals, although not specifically mentioned as such in the Code, is that correct?

A. That is correct. I wish to state that in the Uniform Classification of Accounts for gas companies prescribed by the Public Service Commission of Pennsylvania they have

followed the same procedure as I recommended in this entry since 1922.

Mr. Lange: What are you reading from there, Mr. Luttring?

The Witness: A Uniform System of Accounts.

Mr. Lange: What is the date of that?

The Witness: Effective January 1, 1920.

By Mr. Spencer:

Q. What are we attempting to follow here, the Pennsylvania Code or the Federal Power Commission Code?

A. We are attempting to follow good accounting practice.

Q. Good accounting practice?

A. Yes.

Q. Well, now, let's see. I believe you testified on Friday that it would be at least acceptable accounting practice for a company to expense or capitalize delay rentals up to the time this Code was adopted?

A. That was true, but I didn't say that I would accept the practice.

Q. Again we are back to your judgment as to what should be done here?

A. (Pause.)

Q. Did you answer that?

A. That is correct.

Q. As a matter of fact, Mr. Luttring, I think you said that in your opinion the more conservative practice was to expense delay rentals, didn't you?

A. That is correct.

Q. And again, as a matter of fact, it has been the practice of Canadian River Gas Company to expense its delay rentals?

A. Delay rentals, that is correct.

Q. So their practice to that extent conforms precisely to what you think should be adopted as sound accounting practices?

A. That is right.

Q. The only fault you have to find is that there is another kind of charge here called "bonuses for renewals of

leases," which you think, likewise, should have been expensed?

A. That is right.

Q. Now, let me ask you this again? Do you think it would be sound accounting practice to capitalize bonuses paid for renewal of leases?

A. No, I do not think it is a sound practice.

Q. It might be sound practice for the company to have capitalized delay rentals but not bonuses for renewals of leases?

A. (Pause.)

Mr. Spencer: I don't want to confuse you, Mr. Luttring, but I am talking about practices that have gone by and not practices that should be followed since the adoption of this code.

The Witness: You will have to read that question.

(The question referred to was read by the reporter, as set forth above.)

The Witness: It wouldn't be sound practice to capitalize either one.

By Mr. Spencer:

Q. Then I misunderstood you a while ago. I believe you testified that companies had an alternative in the past of capitalizing or expensing delay rentals, and had they followed either course, there was accepted accounting approval for that?

A. I do believe that the capitalization in some companies had been done, but I do not believe in that practice.

Q. Well, now, I think I understand you; that is, you don't approve of it?

A. That is correct.

Q. Let me turn it around this way: Would you say that the company would have been in error had it capitalized this delay rental in the past?

A. In my opinion it is in error.

Q. Was there no alternative? Was there no other method of handling delay rentals?

A. Well, as I pointed out, there are companies who followed the practice of capitalizing renewal bonuses, and if—

Q. And such—

A. —if that is permitted, that can be carried too far. A company can build up a very large account and eventually it can find it has no gas there, or the lease is valueless, and it will have to take a large loss at the time it is abandoned.

Q. The only think I am trying to get at, Mr. Luttring, is that let me say in my opinion there was some sound basis in accounting practice during the period covered by this exhibit for either capitalizing or expensing delay rentals; that is, one company would think one thing and it would be approved by the auditors, and the other would do the opposite and it would be approved by its auditors; is that not correct?

A. It apparently is because it was done in this case.

Q. I think you just agreed with me that the company had never capitalized delay rentals as such?

A. We are speaking of renewal bonuses, aren't we?

Q. Are there any ~~circumstances~~ under which you would think a company would be justified in capitalizing delay rentals?

A. I can think of none.

Q. Turn to Page 1, Exhibit No. 146. Please note Adjusting Entry No. 200, down at the middle of the page. As I get the effect of your entries there, you have allowed capitalization of over a thousand dollars to bonuses and rentals.

A. That company had no income whatever. In the case of Canadian River Gas Company they are an operating company.

Q. Go ahead.

A. They are two different cases.

Q. But I just asked you if there were any conditions—

A. We were speaking about a company that was in operation.

Q. I said any condition under which it would be proper to capitalize delay rentals.

A. You have one there in Entry No. 204.

Q. That is right. Now, what is the difference between this delay rental and the delay rentals that have been incurred from time to time by Canadian River Gas Company?

A. This company had no income and there was no other place to put it.

Q. They could put it into surplus account, couldn't they?

A. They could but they haven't got any income. What good would it do them?

Q. I don't think it would do them much good to capitalize it.

A. It certainly is from a rate standpoint.

* * * * *

Mr. Luttring further testified on cross-examination: (Vol. XL, pp. 5422-5431.)

Q. Now, Mr. Luttring, I have just a few general questions here about Adjusting Entry No. 201. As I get it, the general effect of the whole adjustment is to reduce operated lease, unoperated lease and surplus accounts by the amount of $151,991.23 and to increase surplus by that amount.

A. No. May I state that for you?

Q. I think maybe you better.

A. We reduce the investment in operated and unoperated leases in the amount of $151,591.23 and we'll decrease surplus by $151,591.23. The item of $400 is already in the income account.

Q. Now, this adjustment and the several items that make up the total are based upon your own judgment as to what should have been done in these particular transactions?

A. That is correct.

Q. Do you consider that this operation you have gone through here is a reclassification of accounts? I see it is not so indicated.

A. Reclassification—this is an adjustment.

Q. Would you consider it to be a reclassification of accounts?

A. No. I consider it to be an adjustment.

Q. The effect of it is a reaccounting so far as the books and records of this company are concerned, is that not true?

A. That is correct.

Q. Now, are you familiar with the order of the Commission requiring natural gas companies subject to the Natural Gas Act to reclassify their accounts prior to—I mean, accounts existing prior to 1940, plant accounts?

A. Read the question.

(The question referred to was read by the reporter, as set forth above.)

The Witness: Yes, I am.

By Mr. Spencer:

Q. And that reclassification is contemplated must be completed by January 1, 1942?

A. That is correct.

Q. Now, do you have a copy of the Uniform System of Accounts there?

A. Yes.

Q. Turn to Page 36 under the heading "Instructions Gas Plants Account, No. 2, Classification of Gas Plant at Effective Date of System of Accounts," and the letter "B" under that heading, and the last sentence in the paragraph numbered "B". I'll read that:

"It is likewise not intended that adjustments shall be made to record in gas plant accounts amounts previously charged to operating expenses in accordance with the Uniform System of Accounts in effect at the time or in accordance with the discretion of the management as exercised under such Uniform System of Accounts."

Are you familiar with that provision?

A. Yes.

Q. Do you agree with that in principle?

A. It does not apply to this particular case.

Q. Do you agree with that in principle?

A. Yes, I do.

Q. Now, the effect of that is to prohibit changes in previous accounting which would have the effect of increasing the invested capital, is that correct?

A. Only so far as it does not apply to strictly accounting errors.

Q. Yes. Now, if it would be improper under the Code to change previous accounting so as to increase the invested capital in the absence of accounting errors, would it likewise not be improper to change previous accounting so as to reduce the invested capital in the absence of accounting errors?

A. Not in my opinion.

Q. It is a one-way street, Mr. Luttring?

A. No, sir. I've handled items both ways in my examination in the study of original cost.

Q. No, I'm talking about the Code. I know you've done

that, Mr. Luttring, but I'm just trying to apply the theories and principles of what you have done to a specific provision of the Commission's Code of Accounts.

A. Well, in this instance I previously testified that I didn't think on this particular account that they had followed good accounting practice.

Q. However, it is the system of accounts that the company itself has followed from the beginning of its operations?

A. That is true.

Q. And I believe you testified yesterday that other companies had followed the same practice with reference to the capitalization of bonuses paid for renewals of leases?

A. I know of some cases where it has been done.

Q. Now, I am just trying to get your ideas about this. Do you know Mr. Charles W. Smith of Washington?

A. I talked with the individual for about five minutes.

Q. You know who he is?

A. Yes, sir.

Q. What position does he occupy with the Commission?

A. He is chief of finance, rates and accounts for the Federal Power Commission.

Q. Now, let us assume for a moment that Mr. Smith had testified in a rate proceeding as follows:

"Past accounting should not be impeached because someone at some other time thinks a different answer is better. Reaccounting of this nature offends the sound principles of accounting. This is obviously so, for otherwise, as indicated by the California Railroad Commission, every time a new face appears on the scene, reaccounting could be had. There would be no surer way of destroying the usefulness of accounting for regulatory purposes."

Now, I would like to ask you if you agree or disagree with the conclusions reached in that statement regarding changes in past accounting.

A. I agree with that statement because it deals merely with the income account.

Q. I haven't said anything about the income account here.

A. Well, the article denotes that it is.

Mr. Spencer: Read the quoted part of the statement that I put in the record, please.

(The record referred to was read by the reporter, as set forth above.)

By Mr. Spencer:

Q. I think you will agree with me that there is no segregation of income or balance sheet accounting indicated in that statement.

A. That's what it means. It is a reaccounting. How else can you get one? It means that you are changing your operating results.

Q. Exactly, but, haven't you been doing some reaccounting here in Adjusting Entry No. 201?

A. We are following original cost principles. I am not touching the income account other than to adjust something that is in the property account, the same as I would in any other adjustment that affects the property account so far as original costs are concerned.

Q. Do you mean to say that what I have assumed Mr. Smith said has no relation whatsoever to the character of an operation which you have gone through in Adjusting Entry No. 201?

A. Well, Mr. Smith would never know the condition of this account unless I brought it out.

Q Well, I'm just talking about general principles of changes in prior accounting.

The Trial Examiner: Read Mr. Spencer's question back, Mr. Reporter.

(The question referred to was read by the reporter, as set forth above.)

The Witness: I don't think that what you have read applies to this adjustment.

By Mr. Spencer:

Q. Why not?

A. What you have read applies to reaccounting of the income account; that is, taking items which have formerly been charged to the income account and at some later date reclassified and brought into property account.

Q. Well, I don't believe the inference you draw is justified, but assume that it does: Then again I ask you about the reverse of that process; that is, the propriety of making changes in previous accounting which have the effect of taking out of capital account items which have been capitalized upon some accepted basis of accounting for the purpose of arriving at our original cost.

A. Well, I feel that I was justified in moving these items in my study of original cost, and I do not feel that it impeaches the prior accounting, because I am reducing surplus. I am not increasing it.

Q. Do you think the company would be justified in going back and capitalizing delay rentals which they have heretofore expensed?

A. I do not.

Q. It seems to me, after you get through with your two answers, that you have a very definite conception of the principles announced here in this statement I have read as being a one-way street, and I don't gather that is intended by the statement. However, I think that's enough on that subject.

Turn to Page 6 of your Exhibit No. 146 Adjusting Entry No. R-202. I think we discussed that briefly before.

A. We have covered that previously.

Q. You explained that that was merely a reclassification?

A. That is all.

Q. I would like you to tell me if you can how you arrived at the figures shown in the last column of your schedule under the heading "Amount" that is to say, the amount applicable to four wells covered, Well No. H-1, I-1, F-1 and G-2.

A. The amounts that you referred to represent inventories as of April 30th, 1924, taken by the company and reflected in its gas well accounts. These amounts were offset in the gas well accounts by a credit to depreciation and adjustment account.

Q. Take the item \$20,974.69 which is applicable to Materson H-1 well.

A. Yes, sir.

Q. Does that contain any cost for drilling?

A. Speak a little louder, please.

Q. Does that cost include anything for drilling? Maybe it would clear up what I am driving at, Mr. Luttring—

A. That goes back into the books of Mountain States Gas Company.

Q. All right, let me tell you what I have in mind, which may help you with the question.

According to our records, the amount of $20,974.69 is the amount of depreciation and adjustment against that well.

A. That's correct.

Q. It is a credit, therefore it does not represent the cost of drilling the well or the physical property included in the well; it merely is an item that appears in the depreciation and adjustment account.

A. Well, the contra to it is represented in the features that are in the well account.

Q. You can't take that figure and balance the well account because there is more cost.

A. Oh, yes, you can. They did it on the books and I have got it on my papers.

Q. Will you check that to see if you are correct about it?

A. I am positive about it.

Q. Well, the amount shown in this schedule on Page 6 of your exhibit, Mr. Luttring, represents figures taken out of the depreciation and adjustment account on the books of Mountain States Gas Company.

A. That is the net effect of the transaction. In other words, we clear the credit which is in the depreciation and adjustment account which is a feature of the gas well investment and credit it to operated lease investment.

Q. That's what I was going to ask you. The amounts are all credits?

A. That is correct.

Commission Witness, Lloyd G. Teel, on cross-examination, testified as follows: (Vol. XLI, pp. 5522-5542.)

Q. Mr. Teel, we were discussing when we recessed yesterday the reclassification entry No. 227 on Page 27.

A. I think we had 227 and 228—we passed over to 228.

Q. I believe that is right. We were discussing them together to a degree. All right. Now, with reference spe-

cifically to R-227, I believe you stated yesterday that the figures which you have tabulated there were taken directly from the company's books just as they appeared on the company's books.

A. These figures were procured by Mr. Luttring in his examination of the Amarillo Oil Company's records and I believe that they were transferred as such from the Amarillo records to the Canadian River Gas Company records.

Q. They were transferred from the Amarillo records to Canadian River's records?

A. Yes.

Q. All right. Now, Mr. Luttring has shown by Page 7 an entirely different amount for the cost of the wells there, Bivins C-1 and D-3 and Masterson B-5, C-1, C-3, D-4, E-2. The total cost of those wells as shown there are somewhat less than the total cost of those same wells as shown on Page 27; that is correct?

A. Yes, that is right.

Q. All right. Then when Mr. Luttring reached his totals of the cost of those particular wells as shown in Entry No. 203, he didn't in reality take the figures as reflected by the books, did he?

A. No. Entry 203 is an adjusting entry.

Q. That is right. In other words, he figured out to his own satisfaction what that cost should be independently of what the books showed?

A. That is correct.

Q. That is right. Now, you have taken those figures—take Bivins C-1, for example, and again there is a total cost of \$50,000, and on Mr. Luttring's entry 203, Page 7, he shows for that well \$46,352.73. Now, what have you done with the difference on that?

A. Well, in the first instance the \$50,000 reflected on Page 27 for that well is the figure recorded by Amarillo Oil Company in lieu of the knowledge of the actual cost and gives an estimated figure. The contra to that figure was credited to gas department adjustment account.

Q. You say it is an estimated figure. As a matter of fact, that figure was set up—when was that figure set up?

A. According to the information on this entry on Page 27, that figure was set up by Amarillo Oil Company in September 1925.

Q. All right, that was the judgment of the auditors of Amarillo Oil Company at that time as to the cost of that particular well, wasn't it?

A. Well, I really don't know whether it was the judgment of the auditors, engineers, or who did it.

Q. It was somebody's judgment at that time or it wouldn't have been on the books, would it?

A. That is right.

Q. That is right. You come along here sixteen years later and you tear all of that down for what particular purpose?

A. I don't think the entries should have ever been made in the first place—

Q. You don't think what?

A. I don't think—when I say "entry," I refer to Amarillo's entry on their books—in setting up estimated cost in lieu of actual cost that entry should have been made because they set up the entry—when they set up the entry they accomplished nothing in the way of good accounting except to set over in one account a credit figure and then set up in the well account exactly the same amount allocated to the various wells. When they get through the plant account is neither increased or decreased and the figure they charge to the wells represents their idea of what the costs were and they were mostly in round figures.

Q. That is precisely so. Now, why do you come along here fifteen years later and insert a different figure which is an estimate, after all, still estimating, but estimating it sixteen years after the work was done? Don't you think they could estimate it better then than today?

A. Which figures?

Q. The figures you and Mr. Luttring have set for these various wells where they differ from the entries made fifteen years ago by the Amarillo Oil Company, Page 7, Exhibit 146.

A. Those figures I believe have been testified to by Mr. Luttring as not being estimated but secured from the original records of the company who built those wells.

Q. As best he could?

A. From the available records.

Q. That is right. The records didn't give him everything he has inserted in that entry, did they?

A. My understanding—

Q. I understood just to the contrary, that some of his figures were estimated, but the record will speak for itself on that.

A. It was my understanding these figures are supported by the figures which he examined.

Q. All right, turn to Page 80. You show there a schedule that reflects the cost of these various wells that you have determined. Now, obviously, that schedule is haywire, isn't it, Mr. Teel, when you get down to considering the thing and the various parts of it?

A. The schedule on Page 8?

Q. Page 80.

A. I beg your pardon. I thought you said Page 8. I don't understand what you mean by "haywire" in this instance.

Q. All right, it doesn't reflect the facts, and from just a casual glance at it will be evident it doesn't represent the correct siuation. The Bivins C-4, now, you run that out and you get an adjusted total cost of $15,872.06 for that well as shown in Column 9.

A. That is right.

Q. You know that isn't a true cost of that well, don't you?

A. No, I don't know that.

Q. You don't know that?

A. As the result of my investigation it indicates that that is the cost of the well.

Q. All right, you see wells all around it costing $50,000, don't you?

A. They are all around on the schedule.

Q. And all around in the field, too.

A. I assume they are.

Q. That's right. Let's be perfectly frank. You know just as well as I do that that well cost more than $15,000, regardless of what the books show and regardless of what your search of the records show, don't you?

A. I would say that is a very low cost for a well.

Q. How is that?

A. I would say that that is a very low cost for a gas well.

Q. Even if the books showed $15,000, and that is all the information you had and you knew the wells in the area

generally were costing $50,000, you would know something was wrong, wouldn't you?

A. Yes, I would probably raise a question.

Q. Now, the company's records on that well show—what do they show?

A. The company's records as indicated on Page 7—

Q. 27 or 7?

A. I beg your pardon. The respondent company, Canadian River Gas Company's records show—

Q. All right, look at Page 8. We have there the total per books. What does the company's records show on that?

A. On that particular well?

Q. Yes.

A. $37,872.06.

Q. All right, now, doesn't that sound to you like a much more reasonable figure than your $15,000 you have set up there?

A. Frankly, it does.

Q. And the company made that entry back fifteen years ago and now you and Mr. Luttring come along today, sixteen years later, and substitute fifteen thousand and some odd dollars as an adjusted figure for the $37,000.

A. That is the effect of the entry.

Q. All right, just a few illustrations there. Let's take the Masterson F-1. That's shown on Page 81. What was the drilling cost on that well, Mr. Teel, as shown by your schedule?

A. The adjusted drilling cost—

Q. How's that?

A. The adjusted drilling cost?

Q. No, the drilling cost.

A. As shown on Page 81?

Q. Yes, Column 13.

A. I don't believe there is any.

Q. There isn't any?

A. No.

Q. Well, you know it couldn't be drilled for nothing, don't you?

A. I never heard of any.

Q. Well, I know you didn't either. We're together absolutely on that. When I said that schedule was all

haywire, that was one of the things I had in mind. When you have a schedule there showing a summary of gas wells and not a dime in it for cost of drilling those wells, there is obviously something wrong.

A. I would say there was something wrong.

Q. All right, now, that isn't the only well that doesn't show any drilling cost. That is true of Masterson M-1, L-1—I just happened to catch those—and there may be some others.

The Trial Examiner: Mr. Keffer, I believe you misspoke there.

Mr. Keffer: Sir?

The Trial Examiner: I believe you mis-spoke. That is Masterson H-1 and I-1.

Mr. Keffer: That is right. These figures are so small and the light isn't so good right here, it's hard to read them.

The Witness: Well, following along that line, Mr. Keffer, if you will notice in Column 6 of that schedule, footnote 2, and on Page 82 there is a note which reads:

"Development costs contained in lease costs. Not segregated here since respondent's records do not contain necessary information."

By Mr. Keffer:

Q. All right, that's just the very information I'm talking about, Mr. Luttring's costs there. He had to estimate those, didn't he?

A. I don't know that Mr. Luttring estimated that cost.

Q. When he shows total costs of wells and development costs aren't shown, he didn't get it from the books. He was making sort of an auditor's appraisal.

A. The well we were just referring to was Masterson F-1. Mr. Luttring's 203 doesn't contain any figures for that well.

Q. All right, now, the upshot of the whole thing, Mr. Feel, and the only thing really that I have in mind, you did have some figures set up on the company's books as the total costs of certain wells and we will admit that it

was a judgment figure, but made sixteen years ago, shortly after the work was done and represents the best judgment of the company at that time as to the actual cost of those wells.

Now, you and Mr. Luttring come by here sixteen years later without any information as a basis for tearing it down, and you tear it down and break it up and submit a schedule here which shows a far less cost for the drilling of those wells than what the company shows. Now, isn't that just precisely what you have done?

A. Well, not exactly. The figures that Mr. Luttring has presented in his Entry 202 and 203 are based on facts which he obtained from the examination of the records.

Q. All right, you just say in footnote on Page 81 that a lot of the facts were not available.

A. That's true.

Q. Then, why didn't you take the company's figures put in there sixteen years ago? You had nothing to break it down.

A. We thought it best to use the figures we had which we could support.

Q. Who thought it best?

A. I thought it best.

Q. Does the Code of Accounts prescribe anything on that; that you use your judgment as to what you think is best contrary to the books of the company which are examined?

A. I substituted actual cost in lieu of estimated cost to the fullest extent that I could.

Q. That's right, but when you came to the matter of drilling costs and you found nothing set up on the company's books for drilling costs, you said "drilling costs, zero," didn't you?

A. That's true, but also footnoted that the costs were in the plant costs.

Q. But not in the well costs. The drilling cost ought to be charged to the well and not to the lease, shouldn't it?

A. That's right.

Q. And the company did that sixteen years ago, didn't they, in effect?

A. Yes.

Q. That's right. Now, you come along here today and you take it out of the well account and you put it in the lease account, isn't that right?

A. No.

Q. Well, where is it?

A. The drilling cost is now, and always has been, as far as we could determine, in the company's lease costs and was not disturbed by us because we couldn't identify it and we made no attempt to estimate it.

Q. But now the company, when they acquired a well and a lease, say, for a hundred thousand dollars, they had a cost there of one hundred thousand dollars for that lease and that well; then they set up—they didn't drill the well in many instances—then they set up what they considered from all of the facts that they had available, the reasonable cost of that well and set it in there, Masterson C-1, for example, $50,000. Now, you have come along here sixteen years later and you have reversed that entry; you have set that well up as a cost considerably less than $50,000 and put the rest of it back into the lease account. Now, isn't that the effect of what you have done?

A. No, I don't think that we have added anything to the lease account. The extent of Entry 203 on the Bivins C-1 is to charge to gas well investment the cost which Mr. Luttring found support for which amounts to $46,352.73. That compared with the fifty thousand is a difference of probably $3700. There have been no additions to lease costs in that entry. On the contrary—

Q I may be a little confused on it. Let's take a concrete example. You take that Bivins C-4 we were talking about a while ago, is as good as any. The company's books show cost on that well of $37,000 plus, doesn't it?

A. That's correct.

Q. All right, then, you go on over to your adjustment cost in Column 9 and you have $15,000 plus as the cost of that well, haven't you?

A. That is correct.

Q. All right, now, something happened to that $22,000. Now, didn't you put that over into your lease account, or where did that go?

A. That difference is made up in the cancellation or

offset of the other side of this entry, 227. Now, maybe I can make this entry a little clearer. In the first place, we have on one side of the ledger, on the asset side, a credit balance. Mr. Luttring in his prior entries had developed what we considered the original cost of these wells. At least it was the original cost which was supported by the records, and he had adjusted certain of those costs. He made an adjustment of cost which sets up the costs that he had found on these wells and charged them to the gas well investment. The credit figure was not affected by that transaction. It was carried separate and apart on the company's books simply as gas department adjustment.

Now, in making this Entry 227 and 228, we merely reversed the original entry, not changing the plant accounts in total. That was not affected. We merely canceled the credit figure and charged—by cancelling it we credited the gas well investment and charged the credit figure. It was an offset or a wash entry.

Q. Well, then, the final windup, you have the adjusted total cost of the wells as shown on Pages 80 and 81.

A. That's true.

Q. Which differs in many instances—in some instances; at least—from the company's book figure.

A. That's right.

Q. Now, that money was spent. You don't question that, do you?

A. Well, as to the half a million dollars, approximately, concerned in the Entries 227 and 228—.

Q. That's right. I appreciate that.

A. As to whether that was spent, I don't know, because it was conceded that it was an appraisal figure, an estimated figure.

Q. But there was no question but what there was that much money out of pocket. You could check that all right.

A. I have no knowledge to that effect.

Q. You could have checked it, couldn't you? That is, on any one of these companies you had information available which showed the total expenditure. It didn't always show where it went, whether on this well or that well, but it showed the total amount.

A. I think you are right there.

Q. So there isn't any question but that the money was spent. The question is where it was spent.

A. I think that is right.

Q. I don't think there is any question about that.

A. No.

Q. Now, you come over here and go to adjusting those accounts and you get, in many instances, an adjusted figure less than what the company's book figures show. Now, that excess isn't taken out of investment. I thought you were carrying it in leases. You are still carrying it in that gas adjustment account, is that right?

A. That is in the—you see, originally when the entry was made, gas well investment was charged with that amount when the contra was set up in this credit figure. We are merely reversing that which cancels the previous entry.

Q. I just can't understand all those things. I'm trying to get it straight in my mind and I am not getting very far. When our books show the well cost at $50,000 and you say it cost $15,000, now, that's a danger signal to me. I can't run through and tell you what has happened to the rest of that money, but I want to be certain that it has not gone out of the book cost or original cost, and I want to be very certain that it is still identified with that particular well in some manner, and I don't think it is. That last part, I think it loses its identity entirely with respect to any particular well and gets into sort of a general account of some character.

A. Well, this situation is brought about by the method of setting up these well costs.

Mr. Lange: Whose method?

The Witness: The company's method. The accounts as they are reflected on the books have on the asset side, as I stated, a credit balance. Now, when this adjustment is affected, that credit balance which operates to decrease the total amount of assets, has been eliminated. The amount simply is canceled—

By Mr. Keffer:

Q. Let me ask you just a concrete question there: Go back to Bivins C-4 again. Supposing Mr. Lange gets an

idea during the course of this proceeding that he might take that well out of the picture entirely or assign it to some particular market or any one of a half a dozen things in which the investment on that well would be relevant. Now, what would he take out or add to with respect to that particular well—your adjusted figure or our book figure?

A. I say, he would take out the adjusted figure.

Q. He would take out the adjusted figure. All right what would happen to the other $22,000? Is it suspended in mid air somewhere?

A. It has disappeared in the cancellation of the credit account.

Q. You mean we are $22,000 worse off after you have made this audit than we were before?

A. No, in so far as this particular well cost is concerned.

Q. That's the point exactly. As far as this particular well is concerned. Now, if you go to taking well investments and making adjustments of one character or another, then the audit that you have here wouldn't permit you to do that and at the same time consider the entire investment in that well, would it?

A. Read that.

Q. Let me restate it. Your adjusted figure doesn't show the entire investment necessarily in a particular well. For example, Bivins C-4 and many others.

A. I think it does to the extent shown on Schedule C.

Q. Do you think there wasn't any money spent in drilling, or very little money?

A. No, I don't think that.

Q. Then you know that it doesn't show the entire cost, don't you, because it doesn't include some items which you know were incurred?

A. In making this audit we followed the principles of original cost.

Q. You followed what?

A. The principles of original cost, and in so doing we used all of the supporting records which were available to us, which were made available to us. The figures that we have here represent all of the information as far as expendi-

tures are concerned which apply to this particular well after the adjustments.

Q. All right, now, let's go over that Masterson well again—F-1. Go over in Column 13, drilling costs, you show another total.

A. That's true.

Q. Now, that's right, isn't it?

A. To the extent shown on the schedule.

Q. That's right.

A. Yes, sir.

Q. Now, you know that that doesn't represent the book cost of that well, don't you, the original cost of it, I mean?

A. Yes, sir, I know that.

Q. You know that it doesn't?

A. Yes, sir.

Q. Then you say you follow the principles of accounting in determining original cost of these wells. You really haven't have you?

A. Yes, I have. I said to the extent shown by this schedule, and Masterson F-1 is footnoted and says that the development cost of that well is in the lease cost.

Q. All right, what do the principles of accounting provide when you are determining original cost and your records aren't complete? Isn't there something in there about estimating?

A. Estimated figures, yes.

Q. Now, isn't that what the company did sixteen years ago? Didn't they estimate those costs?

A. Those are estimated costs.

Q. Sixteen years ago, weren't they?

A. Yes, that's right.

Q. All right, you come along here sixteen years later and the principles of accounting require you to estimate. You have an estimated figure which you discard entirely, and where the books are incomplete you show nothing; so you didn't follow the principles of accounting on that, did you?

A. The principles of accounting don't require that I make any estimates.

Q. I thought you just said that it did where the records aren't available you estimate those.

A. Those are instructions regarding classification.

Q. I misunderstood you. I thought you said that the principles of accounting said that.

Just one further question and I'm through.

You show on that Masterson F-1 well an adjusted total cost of $5,884.62.

A. That is correct.

Q. Well, you know that is wrong. We all know that is wrong, don't we?

A. It is awfully small.

Q. Your answer, after all, is that that is just the best you could do about it, isn't it?

A. From the available records, yes.

Q. And my question is, since you couldn't work it out, why didn't you leave the figures like they were on the company's books and not get all this mess in here which doesn't mean anything after all?

A. Well, there were certain differences which Mr. Lutring explained in his entries that we couldn't justify as costs.

Q. We are going to get into all sorts of difficulty sooner or later if the investment on particular wells is material, because you can't get it from this audit. You will have some of it on wells and some of it somewhere else and we won't know how much or where it is, but we could have told from the company's books if you hadn't disturbed them.

A. Well, the company's books haven't been disturbed, in fact, only in these exhibits presented.

Q. In your substituting your judgment sixteen years later for the company's judgment, shortly after the work was done.

A. Only so far as our judgment is supported by the company's records.

Q. But the cost you refuse to accept today, is discarded today entirely, sixteen years later, purely as a judgment matter, and contrary to the FPC instructions as you have just stated in the Code of Accounts.

A. Well, there are records which indicate the cost of these wells in many instances.

Q. In many instances, that's right, but in many instances the records were incomplete.

A. Certain of them were.

Q. And on those you refused to take the company's estimates and sixteen years later have broken that down and scattered it through a number of accounts.

A. No, we haven't scattered it through a number of accounts.

Q. Well, at least it isn't reflected on that particular well account.

A. That's true, as adjusted.

Commission Witness Luttring further testified on cross-examination: (Vol. XLI, pp. 5544-5581.)

By Mr. Spencer:

Q. Mr. Luttring, *you* hand back to you the copies of instructions which you received regarding your work in these proceedings.

A. Yes.

Mr. Spencer: Mr. Examiner, I have had copies made of Mr. Luttring's copy of the instructions and I would like to have one of these copies marked for identification.

The Trial Examiner: It will be marked for identification as Exhibit No. 161, Mr. Spencer.

(Exhibit 161, Witness Luttring, marked for identification.)

Mr. Spencer: Now, subject to check as to accuracy of our copy, I would like to offer Exhibit No. 161 at this time.

Mr. Lange: Very well.

The Trial Examiner: Is there no objection, Mr. Lange?

Mr. Lange: No, no objection.

The Trial Examiner: Exhibit No. 161 will be received.

(Exhibit 161, Witness Luttring, received in evidence.)

By Mr. Spencer:

Q. Mr. Luttring, let's turn to your Entry No. 211, Page

17, Exhibit No. 146. I take it this entry involves adjustments resulting from the transactions in which Canadian River Gas Company paid Amarillo Oil Company $5,000,000 for certain gas leasehold rights and gas wells and properties in the Texas Panhandle field, is that correct?

A. Yes.

Q. In the schedule of leases on Page 17 are the lease numbers shown, the company's lease numbers?

A. That is correct.

Q. And does this list of leases contain all of the leases which were sold to the Canadian River Gas Company by Amarillo Oil Company in the transaction which I mentioned?

A. This particular entry covers the appreciation only on leases that were still in existence at December 31st, 1939.

Q. In other words, any leases included in the original transaction which had been sold and abandoned, or otherwise disposed of by Canadian River Gas Company prior to December 31st, 1939, are eliminated from this schedule?

A. From this entry, yes.

Q. And that would include, for instance, the leases on the Cliffside Structure which we discussed yesterday?

A. That is correct.

Q. Now, the amounts which you have shown opposite each lease represents what, Mr. Luttring?

A. It represents the amount of appreciation which the company recorded against the respective leases which are detailed in this journal entry. The appreciation up until 1939 was recorded in a separate appreciation account. In 1939—

Mr. Lange: Let me interrupt you there. It is on the company's books?

The Witness: On the company's books.

In 1939 they combined the appreciation with the original cost of leases.

By Mr. Spencer:

Q. Now, when we talk about appreciation here, I take it that we are talking about the difference between the cost of these leases to Canadian River Gas Company and the original cost of such leases to Amarillo Oil Company?

A. That is correct.

Q. In the beginning you say that the setup of this so-

called appreciation value or cost is in a separate account?

A. Yes, sir.

Q. Was that done for the purpose of computing income tax returns in connection with these leases?

A. It may have, and it may have also been in connection with determining the inter-company profits.

Q. Why would there be any necessity at that time for determining inter-company profit?

A. Amarillo Oil Company and Canadian River Gas Company are owned one hundred per cent by Southwestern Development Company.

Q. So what?

A. So there is an inter-company profit when you transfer a transaction of this kind from one company to another, both of which are owned by the same parent.

Q. You are talking about an inter-company profit for the purpose of compiling a consolidated balance sheet?

A. Yes, sir.

Q. What is a consolidated balance sheet with respect to a certain group of corporations?

A. It is the combining of the assets and liabilities of companies which belong to a parent company.

Q. And going back to your previous statement about inter-company profit, if the parent company had made a consolidated balance sheet including the assets and liabilities of Amarillo Oil Company and Canadian River Gas Company in that consolidated balance sheet, any appreciated value as we have distinguished it heretofore would have been eliminated on that balance sheet, is that not correct?

A. That is correct.

Q. That is what you have in mind in connection with a determining of inter-company profit?

A. Yes, sir.

Q. Now, that leads to this question: Do you know Canadian River Gas Company has ever been included in a consolidated balance sheet of Southwestern Development Company, the parent company?

A. No, sir.

Q. By "no, sir," you do not know, or that it has not been included?

A. I do know it was included in the consolidated balance sheet for income tax purposes.

Q. That was so required for a certain period during those operations by the income tax law?

A. That was an option given the company.

Q. There was a certain period here during which income taxes were paid on a consolidated basis in accordance with the law existing at that time?

A. Yes, there was a law at that time giving the company the option to consolidate.

Q. You do not know of any other occasion upon which Canadian River Gas Company has been included in a consolidated balance sheet of Southwestern Development Company, do you?

A. No, sir, I do not know that.

Q. Do you know as a matter of fact in all of the figures of Southwestern Development Company and its subsidiaries with the Securities and Exchange Commission under the Public Utilities Holding Act, Canadian River Gas Company have never been included in a consolidated balance sheet?

A. I do not know that.

Q. Do you know that to include Canadian River Gas Company in a consolidated balance sheet of Southwestern Development Company would distort and confuse the entire picture of Southwestern Development Company and its subsidiaries?

A. I do not know anything about that.

Q. Then if we assume that Canadian River Gas Company has never been included in any consolidated balance sheet of Southwestern Development Company and its subsidiaries except for income tax purposes, why would there be any necessity of Canadian River Gas Company determining what you have determined to be inter-company profits?

A. I was interested in making a study of original cost of the property now used by Canadian River Gas Company. In doing that I found there was a writeup of the property that was received by Canadian River Gas Company from Amarillo Oil Company.

Q. Now, you have used the word "writeup." I will have to ask you about the word. I will start that off by asking you if the five million dollars was actually paid by Canadian River Gas Company to Amarillo Oil Company for these leases and other property. I believe you testified here before that it was.

A. Yes, I made sufficient examination so I know where the cash went.

Q. So when you say "writeup," you merely have in

mind excess of cost to Canadian River Gas Company over original cost to Amarillo Oil Company?

A. That is true.

Q. For the purpose of determining original cost to the Canadian River Gas Company, according to your concept of the principles and rules involved?

A. That is right.

Q. Now, the excess as shown on Page 17 under the heading "Operated Leases" and "Unoperated Leases," are those the ones which have been recorded in this separate account which you speak of on the books of Canadian River Gas Company?

A. Yes, these figures are according to the books of the company.

Q. I am able to check all of those, Mr. Luttring, except the last one, No. 137, S. P. Johnson, $1,908.90. Is there any variation from your figure and the book figure?

A. No, sir. I think the answer to it, without referring to the working papers, is that one of the leases were received in exchange for Lease 36 and 35, so there is a transfer in there. If your total amount agrees with mine, the only difference there can be will be with the individual lease.

Q. Your total amount may or may not agree with mine. We have them set up differently. You have included a lot of transactions here by reason of prior disposition and, therefore, we do not check exactly.

A. As we go through there we will accumulate the entire appreciation.

Q. Now, this adjustment entry of yours results in reducing the operated lease—before asking that question, perhaps to complete the line of cross examination I was following, I will ask you this:

These figures shown on Page 17, of course, are exclusive of amounts set up, well investments? In other words, the values shown here are applicable only to the leasehold interest as distinguished from any physical or other properties on the lease?

A. That is true because this figure was entirely separate from any original cost which the company had.

Q. I think that is correct.

Now, going back to my other question which I started, I take it that the effect of this adjustment entry is to reduce

the company's operated lease and unoperated lease investment in the total amount of $3,120,496.25, is that correct?

A. That is correct.

Q. Now, tell me why you considered this adjustment proper.

A. I considered the adjustment proper because the amount shown here is in excess of the original cost which I was able to obtain from the records of Amarillo Oil Company. In this amount it represents a writeup—

Q. Now, every time you use that word I am going to have to ask you why you use it.

A. It is a writeup because Canadian River Gas Company and Amarillo Oil Company were owned one hundred per cent by Southwestern Development Company.

Q. In other words, Canadian River Gas Company actually paid five million dollars in cash for these properties?

A. That is correct.

Q. And what your writeup is, as you term it, is nothing but an excess of cost between Canadian River Gas Company's cost and Amarillo Oil Company's cost?

A. That is right.

Q. Excuse me for interrupting you a while ago.

A. I think I had finished my explanation.

Q. Well, then, if I interpret your answer correctly, the only reason that you would have made this adjustment is because you considered it to be an inter-company profit between two wholly-owned subsidiaries of the same parent company?

A. Yes, sir.

Q. And that is the only basis for this particular entry?

A. That is correct.

Q. Is the entry made solely on your own judgment and opinion as to what should have been done?

A. It is made in accordance with the classification of accounts.

Q. The classification of accounts?

A. Yes.

Q. Will you turn to your Uniform System of Accounts and find that provision or provisions which you are talking about?

A. On Page 17, Account 107.

Mr. Spencer: Excuse me just a moment.

(Conference between counsel.)

By Mr. Spencer:

Q. What was Account No. 107?

A. Account No. 107, "Gas Plant Adjustments."

The last sentence in the first paragraph reads:

"Writeups of gas plant prior to the effective date of this System of Accounts shall be recorded herein."

Q. To arrive at a point where the sentence you have just read is applicable to the transaction covered by your Entry No. 211, we would have to be agreed that the results of this transaction were a writeup?

A. Will you read back the question, please?

The Trial Examiner: In other words, there would have to be a determination there?

Mr. Spencer: Yes.

The Witness: I think I want to get a fuller explanation.

Will you read back that question?

(The question referred to was read by the reporter, as set forth above.)

Mr. Spencer: Let me say it wouldn't necessarily require an agreement between Mr. Luttring and I, but it would involve a determination that the transaction represented a writeup.

The Witness: We wouldn't necessarily have to agree that the excess is a writeup; we would possibly have to agree about the fact that the excess is there.

Now, what disposition we make of it may take a different disposition.

By Mr. Spencer:

Q. But you have testified that you have made this adjustment and tied it into gas plant adjustment account No. 107 because it represents a writeup of gas plant prior to the effective date of this System of Accounts?

A. That is true. What I am trying to bring out is this: If you could prove that excess is an intangible which you

are entitled to in your original cost, then it would not be charged to Account No. 107; if you could not prove that it is a legitimate intangible, then we must charge it to Account No. 107, gas plant adjustments.

Q. All right, but when you make the adjustment to gas plant adjustment account No. 107 you are concluding in your own mind it is a writeup?

A. That is correct. That is the determination that I made.

Q. Now, is there anything else in the Code of Accounts that support you for the purpose of determining the word "writeup"?

A. No; it has been known to me ever since I have been in the accounting field. It is a common term in accounting practice.

Q. Then you have supplied your conclusions and own definition and own interpretation as to what constitutes a writeup, is that correct—a conclusion based upon your own experience?

A. Yes.

Q. Will you put your definition of "writeup" into the record so that I can have it?

A. Writeup, in this instance, is the excess of purchase price paid by Canadian River Gas Company for the properties acquired from Amarillo Oil Company because the Amarillo Oil Company and Canadian River Gas Company were wholly-owned subsidiaries of Southwestern Development Company.

Q. Now, you have given me a definition of the writeup with particular application to the transaction that we have here.

A. Yes. Well, it applies to any transaction to that.

Q. I mean, the word "writeup" is much broader than that particular definition which you have given.

A. Oh, it can be.

Q. Now, if you have a Code of Accounts before you there, on Page 17, referring to Account 100.5 entitled "Gas Plant Acquisition Adjustments," which reads in part as follows:

"This account shall include the difference between (a) the cost to the accounting utility of gas plant acquired as

an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost estimated if not known, of such property, less the amount or amounts which may be credited to the depreciation, and amortization and depletion reserves of the accounting utility at the time of acquisition with respect to such property."

Now, is there any difference in opinion between us as to whether or not the transaction which you are covering in Entry No. 211, didn't represent a purchase or at least some other disposition of gas plant property?

A. I pointed out to you just previously that if you can substantiate that excess as being a good intangible, you would be permitted to put it in Account 100.5, Gas Plant Acquisition Adjustments. Now, I didn't consider this transaction an arm's length deal for the reasons as previously stated. Therefore, it was put into Account 107, Gas Plant Adjustments.

Q. And you did not think that Account 100.5 was the proper place to handle the transaction?

A. Not according to the information which I have regarding this transaction.

Q. Is there anything that I have read from Account 100.5 which says that the provisions of that paragraph shall not be applicable to transactions between affiliated or associated companies? I just want a yes or no answer on that.

A. Well, no, but may I add something?

Q. Now, you can add something.

A. When you use the word "writeups" it does apply to the type of transaction that we are speaking of here and, therefore, it does refer to Account 107, Gas Plant Adjustments.

Q. All right, but there is nothing in the instructions relating to Account 100.5 that makes any distinction or places any limitations upon transactions between associated or affiliated companies?

A. No, sir, other than the burden of proof is upon the utility.

Q. Now, is there anything in Account 100.5 that says where the burden of proof shall be, if any place?

A. It doesn't say that.

Q. All right.

A. You could possibly interpret it to mean that in your Paragraph C. That disposition of the account comes under the approval or direction of the Commission.

Q. Exactly.

A. Yes, sir.

Q. You are undertaking to do it for the Commission here, it appears to me.

A. I am representing the Commission, yes.

Q. You are undertaking to do it for the Commission. Again I will ask you if you are a rate expert.

A. I am not.

Q. All right, now, let's turn to—strike that.

What are the instructions of the Commission in its Uniform System of Accounts relating to the handling of transactions between associated companies?

A. Well, whatever they are, I have applied them so far as they concern the accounts on Pages 16 and 17 of the Classification of Accounts.

Q. Is there anything in these instructions that says that a profit made from the sale of properties by one subsidiary to another subsidiary of the same parent shall per se be thrown out as improper?

A. No, sir.

Q. Isn't it a fact, Mr. Luttring, that with respect to transactions between associated companies all the Commission has attempted to do in its Uniform System of Accounts is to have them set up, earmarked in such a fashion that they can be easily identified for such disposition as the Commission might want to make?

A. The requirement of the Commission is that original cost as developed by those companies—by that I mean first cost plus any legitimate intangibles to which the companies are entitled—must be carried through.

Q. If you had put this excess amount which you show on Page 17 in Account 100.5, the Commission would have had no difficulty in identifying exactly what it was for the purpose of making its determination as to its final disposition?

A. That's right, we would have had very little argument about it

Q. We would have had practically none because it would still be in the plant account?

A. Yes, sir.

Q. Subject to such disposition as the Commission would want to make of it after reading the evidence that you and I are putting in here. You have concluded that, though you have already thrown it down to gas plant adjustment, is that right?

A. That is right.

Q. Or you have concluded, rather, in some subsequent schedules or entries in this Exhibit 146 that these properties and assets involved in this transaction became the properties and assets of Canadian River Gas Company as of May 1, 1927?

A. That is the date we assumed, yes.

Q. Now, Canadian River Gas Company was incorporated when?

A. 1928, the month of February.

Q. That's right. Amarillo Oil Company had been in existence previously?

A. Yes, sir.

Q. The properties were actually transferred about when?

A. The voucher transferring the property was in June, 1928.

Q. And did you examine the documents of conveyence to see when they were dated?

A. No, I did not.

Q. Did you find any agreement between Canadian River Gas Company and the Amarillo Oil Company covering the purchase and sale of these properties and assets?

A. No, sir.

Q. There was some reference to it in the minute book of both corporations but no formal contracts, is that right?

A. There was very little regarding the transaction on the minute book of the Amarillo Oil Company. If I remember correctly, I don't think the officers and directors of Amarillo Oil Company were asked what their opinion of this transaction was or what action they desired in the matter.

Q. You don't think so?

A. No, sir.

Q. Did you examine the minute book of the Amarillo Oil Company?

A. Yes, sir.

Q. As a matter of fact, the inception of this transaction was on April 5th, 1927 when Southwestern Development Company and the Standard Oil Company of New Jersey and Cities Service Company entered into what we have termed a memorandum agreement covering the Denver project, is that right?

A. That is right.

Q. Have you read that agreement, Mr. Luttring?

A. I have read that memorandum of stipulations.

Q. And is it a fair statement to make that the determination and the obligation to buy and sell these properties involved in your Entry No. 211 were made at that time?

A. In so far as those three companies may be concerned.

Q. Yes, in so far as they can control the situation.

A. That is correct.

Q. And is it also fair to say that those same parties agreed upon the price to be paid for these properties, to-wit: five million dollars?

A. Read the question, please.

(The question referred to was read by the reporter, as set forth above.)

The Witness: That is right.

By Mr. Spencer:

Q. And, likewise, did they not agree upon all of the other material or substantial terms and provisions of the transaction in that document?

A. Substantially, yes.

Q. I think there were some minor variances?

A. Well, they have been carried out appropriately as the stipulations called for.

Q. And is it also true that the consummation of this transaction pursuant to that agreement was only contingent upon two principal conditions; namely, the obtaining of a natural gas franchise in Denver and approval of titles to the properties of Amarillo Oil Company which it was intended would be conveyed?

A. That is correct.

Q. And after those two conditions had been satisfied

and the five million dollars was paid, the properties were conveyed as you have heretofore testified?

A. That is correct.

Mr. Spencer: May we have a recess at this point?

The Trial Examiner: Very well, we will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

Mr. Lange: Mr. Examiner, I think an error crept into this record. I want the witness to explain a statement made at Page 5425 of yesterday's record.

Do you have your copy of yesterday's record there, Mr. Spencer?

Mr. Spencer: No, I don't.

Mr. Lange: The question is: "No, I'm talking about the Code. I know you've done that, Mr. Luttring, but I'm just trying to apply the theories and principles of what you have done to a specific provision of the Commission's Code of Accounts."

And the answer: "Well, in this instance I previously testified that I didn't think on this particular account that we had followed good accounting practice."

What was your answer there that you meant, Mr. Luttring?

The Witness: I should have said "they."

Mr. Lange: Speaking of "they," whom did you mean?

The Witness: Meaning the Canadian River Gas Company.

Mr. Lange: Was that the obvious answer, or could there have been any other answer there?

The Witness: There could be no other answer.

Mr. Lange: I think at this time I would like to have that—

Mr. Spencer: Mr. Lange, I am willing to stipulate right

now that he may change the answer itself so that it conforms to what he had in mind.

Mr. Lange; All right.

By Mr. Spencer:

Q. Now, Mr. Luttring, let's turn to Page 18 of your Exhibit 146 which has to do with reclassification entry No. 212. The subject matter of this entry is legal expenditures made in connection with examination of titles and other work at the time Canadian River Gas Company was organized.

A. That is correct.

Q. Is the effect of your entry that you are capitalizing those?

A. No, the entry, as you will notice, is a reclassification entry.

Q. Yes.

A. It has no effect on your plant account.

Q. Oh, I see, you are merely transferring it from one position to another?

A. That is right.

Q. And that is done upon the basis of a letter which I wrote to Mr. Schutte under date of November 14, 1939, a copy of which appears at Page 19 of your Exhibit 146.

A. That is correct. If you will recall, the company incurred a considerable amount of expenditures for curing titles and procuring abstracts and, so on, just prior to the time that Canadian River Gas Company acquired the property from Amarillo Oil Company.

Now, I think that this legal fee is in the same category as those other expenses.

Q. It should be identified with the leases?

A. Yes, sir.

Q. All right. Turn to Page 20 which relates to reclassification Entry No. 213. Your note at the bottom of the page reads:

"To eliminate from the depletion base, leases abandoned by debit to the years in which the abandonment was made and by credit to the years in which the leases were acquired.'"

A. That is right.

Q. You do not agree with the method the company has employed in handling the entries?

A. Yes, we do. To avoid the necessity of making any depletion accrual on your abandoned leases and then charging the leases off against that accrual, since the company has already charged this to their income account, we are merely taking this out as between years in the unoperated lease investment.

Q. The results of your entries recommended here have no effect on the plant account?

A. No, sir, it is a reclassification entry. It is merely reclassifying investment as between years.

Q. There is just this point that is not quite clear to us, Mr. Luttring. Does the company take depletion on unoperated leases?

A. No, sir. The purchase of the lease is made in one year. The abandonment is made in a subsequent year, and when making the abandonment the company charges it to their income account.

Now, in effect it is not in the lease account any longer. Now, all we have done is taken the credit and applied it back against the year in which the purchase was made.

Q. Well, wouldn't it be more accurate or perhaps a little more clear if we used some words other than "depletion base" as you have included it in your note to this entry?

A. Well, as we come to our depletion schedule, why, you will probably get the significance.

Q. As I look at it here, we are talking about a depletion base on unoperated leases which present some incongruity.

A. Well, we haven't considered that you have unoperated leases. That is a classification which the company kept and we have combined the whole lease costs. Is that clear?

Q. You think it will clear up as we proceed through in other—

A. We haven't considered that you have unoperated leases only in so far as the accounts show on the books.

Q. I see. You mean by that that you have considered all of our leases as operated leases?

A. That is correct.

Q. Now, Page 21, Mr. Luttring, Entry No. 216. I assume there is an adjustment and not a reclassification involved in this entry; is that correct?

A. That is an adjustment. However, the adjustment does not affect your plant account.

Q. Why?

A. Because the amounts covered by this journal entry are really moved from your surplus account and charged to gas plant adjustment account 107.

Q. Oh, I see. Now, the amounts you have shown in your schedule there, your note states, represents appreciation on leases, abandoned and charged to cancelled and surrendered lease account in the income account.

A. That is correct.

Q. Now, the balance of the cost of the lease would be disposed of where?

A. In the income account and most likely canceled and surrendered lease expense account.

Q. You left it where it was.

A. Yes, sir.

Q. Why did you find it necessary to recommend or make these entries in connection with leases that have been abandoned and disposed of over a period of time?

A. Because all of these entries of this particular nature relate to the appreciation and is being accumulated in Account 107 so that the total amount of appreciation is finally determined.

Q. Do you think it is good accounting practice to separate the cost of an abandoned lease in that manner; that is, treating part of the costs in this fashion and the other part in another fashion?

A. To be consistent, I do.

Q. You would not do that, however, as a matter of accounting practice unless you were attempting to arrive at your opinion of original cost of the properties involved here?

A. No. If original cost was not involved, this type of transaction would not be necessary.

The Trial Examiner: This type of an entry, Mr. Luttring?

The Witness: Yes.

By Mr. Spencer:

Q. Page 22, Mr. Luttring, adjusting entry No. 217.

I assume this, likewise, involves an adjustment rather than reclassification?

A. That is true. This is exactly similar to Entry No. 216.

Q. Except here you have the amount involved in a well which was sold—of a well and lease which was disposed of rather than abandoned?

A. Yes, but the amount in this journal entry does represent the appreciation which was recorded on the books on that particular lease.

Q. What are you doing with Entry No. 216 and Entry No. 217 and, likewise, 218 which follows, is reaccounting so far as the books of Canadian River Gas Company are concerned, is that not true, for the purpose of arriving at original cost as you conceive it?

A. It is really reaccounting made to a suspense account. In other words, the charge may come back into your surplus account in the same year in which it is taken out.

Q. Now, as I understand the Commission's Code of Accounts here, reaccounting would not be proper unless it involved some patent errors in accounting?

A. This is not reaccounting in the sense that reaccounting transactions are placed into the plant account. This reaccounting went into Account 107, gas plant and adjustments. Therefore, it is not in your plant account.

Q. Exactly, but let me ask you this: Do you think the entries the company has placed upon its books at the time these transactions arose were in error; that is to say, that they did not conform to any accepted accounting practice at that time?

A. Well, they may have been—they may have conformed to a practice, all right, but to carry this thing a step further, the Account No. 107 is under the jurisdiction of the Commission.

Now, the charges that I am suspending there may come back into your surplus account, probably the same year.

Q. How will they get back?

A. I beg your pardon?

Q. How will they get back?

A. By order of the Commission, if they so desire. The Commission may charge their surplus with it.

Q. As far as you are concerned, you have determined the matter that it should come out of the plant account at this time?

A. It was already out of the plant account. It is not a question of being a reaccounting so far as the plant account is concerned.

Q. I see, but at least it should not be left in the account in which the company had it?

A. Not in order to bring out the full amount of the appreciation that was on that original transaction.

Q. Now, when you get through with reclassification entry No. 217—I beg your pardon, on Adjustment Entry 217—you have charged off the entire loss on this sale to—strike that question. Let me ask you another question.

Was the sale of the Ingerton lease made at a profit in excess of cost to the Canadian River Gas Company?

A. It was a loss so far as the determination made by the company.

Q. What was the purchase price? I think you show it down below in Entry No. 218, $52,500, is that correct?

A. That is the sale price.

Q. The sale price?

A. Yes.

Q. Or the purchase price for the purchaser. The cost of the property sold as appearing on the books of Canadian River Gas Company was how much?

A. Well, the costs—

Q. The total cost, if you have it in that manner.

A. The total cost, $137,639.50 plus $825.89 for a note receivable of W. H. and Ida Ingerton, and interest receivable in the amount of $3.68, making a grand total of $138,469.07. Do you want the accrued reserves?

Q. Well, what I want to come to next is the approximate amount of the loss involved in the sale as computed from the figures appearing on the books of the company.

A. The approximate loss as computed by the company is $66,181.90.

Q. Now, in this case we have the sale and disposition of a property at a loss as distinguished from the sale and disposition of a property at a profit as we had yesterday in the case of the Cliffside Structure. To be consistent with

what you did yesterday in connection with the Cliffside Structure, what would you do and what would you recommend be done with a loss of approximately $66,000 involved in this transaction?

A. In the first place, the loss isn't that large after taking out your appreciation, and this transaction took place in 1935, about seven years after the company started operations.

It now becomes a proper charge against your reserve account.

Q. Is that the way you are handling it here?

A. Yes. The facts will be developed when we get to depreciation.

Q. In other words, the balance of the amount of money involved here will come in later in other—

A. That is correct.

Q. Not in this exhibit?

A. No, not this exhibit.

Q. Exhibits to come later?

A. That is correct.

Q. Is that your exhibit?

A. Partly. The best part of it is.

Q. The Cliffside properties were transferred and conveyed in 1929, approximately one year after Canadian River Gas Company commenced its operations, and this property was transferred and sold at a loss approximately seven years after the Canadian River Gas Company commenced its operations. Is that the reason for handling the two transactions differently?

A. That is correct.

Q. Entry No. 218 on the same page, 22, is a part of the same transaction that we have been discussing?

A. That is right.

Q. And you treat that in the same manner?

A. Well, Entry No. 218 is slightly different than Entry No. 217.

Q. Will you explain that, please?

A. Canadian River Gas Company paid fifteen per cent of the sale price of $52,500 to the Parcomis Oil and Gas Company because the Parcomis Oil and Gas Company had some oil rights, or had the oil rights on this lease.

The amount paid Parcomis Oil and Gas Company, in the view we have taken, should not have received this money because they had paid nothing for the oil leases. In other words,—

Q. "They," meaning whom?

A. In other words, Canadian River Gas Company actually only received the difference between \$52,500 and \$7,875.

Q. You mean they should not have received it? This entry doesn't result in Canadian River Gas Company getting it back, does it?

A. No, they don't get it back in cash.

Q. They get it back in credits to the accounts you have indicated here?

A. That is right. I had set it up because of its relation to Journal Entry No. 217.

Q. Now, Parcomis Oil and Gas Company joined in the conveyence of these leases and properties to the purchaser, did they not?

A. I don't know.

Q. You didn't investigate that?

A. No, sir, I didn't examine the leases.

Q. Were the oil rights under these leases ever conveyed to Canadian River Gas Company—well, under this lease, I'll say.

A. Well, from what I know generally, I don't think they were, but I didn't get that information through the examination of leases.

Q. Well, did the agreement of April 25th, 1927, which we mentioned this morning, cover the purchase and sale of oil rights?

A. No, I don't think it did.

Q. All right, let's go to page—one more question. Generally your reasons for making the adjustment entry No. 218 are those which you have outlined in connection with 217, generally speaking.

A. That is correct.

Q. Now, Page 23, Adjusting Entry No. 219?

A. This also involves the same subject matter as No. 218.

Q. And 217?

A. And 217, that is correct.

Q. Now, why do you feel that these entries are necessary at this time?

A. I thought they were necessary in order to show that Canadian River Gas Company was entitled to all those proceeds. As I previously stated, the Parcomis Oil and Gas Company made no disbursements for the oil lease.

Q. Well, that isn't exactly correct as to disbursements of Parcomis Oil and Gas Company, but I don't see the necessity of going into that. What you have done here is similar to 218?

A. Well, this really won't affect the company any as I see it.

Q. They don't get the money, but you make some adjustments here to throw these things back into certain accounts where you think they ought to be had the transaction been different?

A. Well, supposing—here I credit your surplus account in 1935. I charge gas plant adjustment—

Q. Excuse me. What page are you talking from now?

A. 22.

Q. I was talking on 23, or are you giving your sample—

A. All right, take 23. It's just the same.

Q. Go ahead.

A. In this instance I am charging your surplus account and crediting gas plant adjustment account, 107. Now, if the Commission decides that that credit should be written off against surplus, you get it right back in there: so we are right where we started.

Q. Except for the "if."

A. Well, in this particular one it is a credit, so you aren't bad off either way.

Q. Well, you mean that the $124.24 is a credit?

A. Yes.

Q. Well, I don't sneeze at that amount, either.

A. Well, you have got a bigger credit in your Journal Entry 218, if you like that one better.

Q. Now, that completes the entries which you computed and recommended in this exhibit.

A. That is correct.

Q. Now, you also compiled certain schedules that are included in this Exhibit 146, Mr. Luttring?

A. Yes.

Q. I have lost my notes. I don't know which ones they are. Will you go right on through and pick up the first one?

A. Page 68.

Q. By the way, before you get there, did you have anything to do with these suspensions on Page 59?

A. No, sir.

Q. One more preliminary question: What, if anything, did you have to do with the compiling of the schedules starting on Page 61 and ending on Page 64?

A. Only in so far as any of the figures that I contributed to that schedule.

Q. Did Mr. Teel take your computations and your figures and interpret them in this schedule?

A. Yes, sir, he applied them in this summary.

Q. And his treatment of those figures as to where they should be applied in this schedule is his own, I assume?

A. All of the journal entries, both reclassification and adjusting entries are applied in Columns 5 and 6.

Q. Yes, some of which are yours?

A. I beg your pardon?

Q. Some of which are yours?

A. Yes, some are mine.

Q. Well, we'll come back to that before we wind up here.

The first schedule is Page 68, I believe you said. Now, will you give me a brief description of what that schedule is? I believe it is contained on two pages, Pages 68 and 69, is that correct?

A. And 70.

Q. And 70.

A. Right.

Q. Three pages.

A. That is correct.

Q. All right, now, just a general description of that schedule.

A. Schedule No. 2 attempts to—or, rather, does show the source of the leases acquired by Canadian River Gas Company according to their respective periods, and it shows the original cost of those leases and the appreciation thereon.

Q. As found by you?

A. As found according to the records of the company.

Q. Well, I mean, the appreciation you found, is that the appreciation which—

A. That is the appreciation that was recorded on the company's books.

Q. Well, let's stop there a minute. You made one adjustment here in the original cost of leases to Amarillo Oil Company. In other words, you have gone back to interest preceding Amarillo Oil Company and adjusted those costs so as to one particular group of wells you have adjusted Amarillo Oil Company's cost?

A. There has been no adjustment on original cost of leases other than—

Q. Well, I guess that answers my question.

A. —other than the appreciation shown here.

Q. I guess that answers my question, then. That adjustment on the cost, original costs of Amarillo Oil Company which you made related to well investment and not leasehold costs?

A. That's correct.

Q. All right, then, it wouldn't be in here?

A. No, sir.

Q. All right, we may be talking about the same thing, Mr. Luttring, but as I understood you to testify, you show nothing here except appreciation as it has been set up in separate account on the books of Canadian River Gas Company, is that a correct interpretation of your answer?

A. That is correct.

Q. Well, then, I don't understand that the books of Canadian River Gas Company reflect any so-called appreciation resulting from the sale of the gas, leaseholds and wells of Master Oil and Gas Company to Canadian River Gas Company.

A. Master Oil and Gas Company?

Q. Yes.

A. You couldn't very well have any because the company didn't have any income.

Q. Well, don't you make an adjustment in here on that?

A. On Master Oil and Gas Company?

Q. Yes, in this schedule on Page 70, Sheet 3 of 3, Schedule 2. Do you see what's bothering me?

A. Yes. Well, now, I was confused myself here. Supposing you turn to Page 70.

Q. Yes.

A. You will notice over in your operated and unoperated columns the adjustments for those journal entries which we have discussed heretofore.

Q. That's right, and not all of those appear as appreciation on the books of Canadian River Gas Company by any means.

A. Only that column which is so designated.

Q. I see. All right. Now, would you say—what is the purpose of this particular schedule, Mr. Luttring, in so far as this exhibit is concerned?

A. The only purpose is for convenience of presenting the account in an intelligent manner so that we may be more intelligently able to discuss it here at the hearing.

Q. In other words, you were treating it as a schedule which supports and undoubtedly clarifies some of the other work you have done in connection with adjusting and reclassification entries?

A. Well, for one who may not have been very familiar with the accounts of the company, I do think that this gives a very detailed account of it. In my opinion, it is quite self-explanatory if you have any idea about the company's business.

Q. I think that is correct, with your qualification that you have just added. The only reason I am asking is because other people are going to look at it and wonder what it is about that don't have any familiarity with our business and affairs. I am not quarreling with the schedule in the exhibit.

A. The only thing that I can say is that I have always followed the idea of trying to give the other fellow as good a picture as possible before discussing it.

* * * * *

Mr. Luttring further testified on cross-examination: (Vol. XLIX, pp. 6692-6714.)

Q. Mr. Luttring, you were on the stand a day or so ago when you were requested by Mr. P. C. Spencer to furnish certain items of information?

A. Yes, sir.

Q. Do you have that material available at this time?

A. Yes, sir.

Cross Examination.

By Mr. Spencer:

Q. Mr. Luttring, during my cross examination of you in connection with Exhibit No. 146, the Examiner made some inquiries with respect to the volume of sales of natural gas by Amarillo Oil Company during the early years covered by your study.

A. That is correct.

Q. And I suggested to the Examiner at that time that we might get together and give him some information on that subject which would be satisfactory to him and in that connection have you supplied me with some figures showing volumes of sales by Amarillo Oil Company during its early years?

A. I have.

Q. According to the figures, then, Mr. Luttring, Amarillo Oil Company commenced marketing gas in October 1920 and its principal customers, in fact, the customer that took substantially all of its gas at that time, was the Panhandle Pipe Line Company.

A. That is correct.

Q. Now, stating volumes in Mcf., your figures show that Amarillo Oil Company delivered to Panhandle Pipe Line Company the following volumes of gas for the years 1920 to 1924, inclusive:

1920, 236,667; 1921, 771,932; 1922, 1,159,005; 1923, 1,246,043; 1924, 1,458,864.

The Trial Examiner: Did you say those were in Mcf.?

Mr. Spencer: I stated at the beginning that I was giving Mcf.

Q. Is that correct, Mr. Luttring?

A. That is correct.

Q. Now, the measurement used in arriving at the total figures as I understand you is the contract pressure base, whatever it may be from time to time?

A. That is correct.

Q. I believe you also heretofore testified that the deliveries were made to Panhandle Pipe Line Company at the well?

A. That is right.

Q. Also that you had no definite knowledge as to the ultimate disposition of this gas by Panhandle Pipe Line Company except that it was distributed by Amarillo Gas Company in the city of Amarillo?

A. That is correct.

Q. Do you know as a matter of fact whether there was any affiliation, corporatewise, between Amarillo Oil Company and Panhandle Pipe Line Company prior to 1924?

A. I do not.

Q. Well, when, according to the notes and knowledge you have gained from the investigation, did Amarillo Oil Company and Panhandle Pipe Line Company become affiliates, corporatewise?

A. They became affiliates and likewise subsidiaries of Southwestern Development Company about July 1924.

Q. I think that is correct.

Now, no other sales of natural gas were made in substantial volumes until 1923 when Amarillo Oil Company commenced supplying the United States Zinc Company smelter near the city of Amarillo, is that correct?

A. That's correct.

Q. Now, your figures show that commencing in 1923 Amarillo Oil Company sold to United States Zinc Company the following volumes of gas, stated in Mcf.:

1923, 712,470; 1924, 1,734,503, is that correct?

A. What was that first figure?

(The figures referred to by the witness were pointed out by Mr. Spencer on memorandum.)

The Witness: That is correct.

By Mr. Spencer:

Q. Now I believe you have heretofore testified that this particular gas was transported by Amarillo Oil Company through its own pipe line and delivered at the smelter to the United States Zinc Company?

A. That is correct.

Q. And the volumes as stated here are in accordance with the pressure base provided in the contract?

A. That is correct.
Q. You have also testified, have you not, that the volumes of gas involved in these sales was used for industrial purposes?
A. I did.

Mr. Spencer: Does that satisfy the record so far as you are concerned?

The Trial Examiner: Yes, I think so, Mr. Spencer.

Were those deliveries to the Zinc Company included in the first amount that you read?

Mr. Spencer: No, they are stated separately in each instance.

Q. Is that not correct, Mr. Luttring?
A. That is correct.
Q. Now, do you have a copy of your Exhibit 146 there?
A. Yes.
Q. Turn to Page 7, Entry No. 203. In cross examination with respect to this entry it developed that you had excluded from the investment figures here a dry hole drilled by Amarillo Oil Company during the early years of its history. I believe it was Bivins 2 and I asked you if you could give me a breakdown of these costs which you had allocated to that dry hole. Do you have that information available?
A. Yes. I furnished that information to you and in reviewing the items which I allocated to this dry hole, there was a disagreement in the amount that I allocated as labor, teaming and freight costs. This amounted to $3,679.27, and I have no objection in removing this amount—or, rather, reducing my adjustment in Journal Entry No. 203, Plant Adjustment Account No. 107, by this amount, and in order to not disturb the prorations which we have already made on the cost shown in this journal entry, I recommend that it be charged to Masterson C-1 well.
Q. Shown in the schedule on Page 7?
A. Shown in the schedule on Page 7.
Q. Well, you say it is not objectionable to you, Mr. Luttring. As a matter of fact, it would be the proper thing to do, would it not, under the circumstances?
A. Well, I think I recommend it in there.

Q. You have recommended that it be done?

A. Yes, sir.

Q. So that the effect of what you are suggesting or recommending at this time with reference to this particular dry hole would be to reduce the plant adjustment by the amount of approximately $3600 which would increase the gas well investments by the same figure?

A. That is correct.

Mr. Spencer: I can appreciate your difficulty in taking that particular sum of money and allocating it to any particular well. If counsel has no objection, I am willing to agree with that allocation in so far as this schedule is concerned without, however, waiving any of my general objections to the whole exhibit.

Mr. Lange: That's right.

The Trial Examiner: I presume with that explanation and with that agreement it won't be necessary to go back through the exhibit and alter those figures?

Mr. Lange: I don't think so.

Mr. Spencer: Well, I am not going to ask that it be done, Mr. Examiner.

One other question with respect to these sales of gas by Amarillo Oil Company during its early existence.

Q. Is it true that during the years 1920 and 1921 all gas sales were made from three wells?

A. That is correct.

Q. And in 1921 the gas sales were made from four wells?

A. From September 1920 to September 1922 all of the gas sold was taken from Masterson wells No. C-1, E-2 and D-4.

Q. I think that is correct. Do you have handy there the same information for 1923?

A. In 1923 gas was produced and sold from Masterson wells No. C-1, C-3, B-5, D-4 and E-2 and also Bivins C-1 and D-3.

Q. All right, now, 1924?

A. In 1924 gas was produced from Masterson wells No. C-1, C-3, B-5, D-4 and E-2, and also from Bivins A-2, B-1, D-3, C-1 and C-4.

Q. I have a difference of two wells in the year 1924; that is two less than you show. However, that will be sufficient from your records on that subject, Mr. Luttring.

A. My production ties up with the dollars exactly, so—

Q. I have no doubt that it does and I am not saying that your designation of wells is incorrect. It may be, but I will check that later. You do not need to do that.

Now turn to page 1 of your Exhibit 146, Entry No. 200. During the course of the cross examination on this entry I asked you if you could identify certain charges to income or expenditures made by the Master Oil & Gas Company which you had not included—which I thought you had not included in your lease costs or well costs here. Now, I believe those figures were: Field expenses, $4225.86; General expenses, $2650.26. Have you any further information with regard to that inquiry at this time?

A. Since my previous testimony I had an opportunity to review my working papers and identify the amounts of $4,225.86 and $2,650.26 for field expenses and general expenses, respectively. At the time I previously testified I thought perhaps there were some items in those figures which I had overlooked and which I may have been able to consider as accounting errors and as such I would have been justified in including them in my original cost of the plant account of Master Oil & Gas Company.

The information which I have in the papers leads me to believe that the nature of the items are such that they would fall under a reaccounting because they appear to be the normal expenses that would be charged to an income account. I do not believe it is my responsibility to reclassify any expenses of this nature.

Q. Then you went far enough with these particular items in your investigation to conclude that there were no accounting errors involved in charging them to expense rather than capital?

A. No, I would not say that I went far enough. I probably made a quick deduction from the general character of the accounts to satisfy myself that they were not the type of items that I would probably capitalize.

Q. Well, that's sufficient on that item so far as I am concerned unless you want to add something, Mr. Luttring.

Now turn to Page 28 of your exhibit, Entry No. 229. I believe that this is an entry that Mr. Teel testified about. Is there some additional explanation with respect to this entry that you would like to make for the record?

A. Yes. The drilling costs and the labor, teaming and freight costs on this particular well represented in this entry are the only drilling and labor, teaming and freight costs which the company has on a producing well charged to their income account.

This, I believe was an accounting error, and for that reason the costs were removed from the income account in Journal Entry No. 229 and restated as gas well investment.

Q. Well, I think that does clarify the record somewhat on that, Mr. Luttring, and I thank you for the explanation.

Now, that is all the items that I have here. Do you have any others?

A. No, I don't.

Q. That I was going to examine you about.

A. I don't think so.

Q. Oh, one other question. Were you able to find any further information concerning the date on which the Master Oil & Gas Company was dissolved?

A. On that point I did not find anything further in my papers. It seems proper to accept the date that you introduced in evidence.

Mr. Spencer: All right.

Mr. Lange: I have some redirect.

Redirect Examination.

By Mr. Lange:

Q. Referring to your Exhibit 146, Mr. Luttring, on cross examination in connection with that exhibit you were interrogated with reference to Entry 211 at Page 17.

A. Yes.

Q. In the course of that cross examination the inquiry was directed as to whether you knew what the disposition was of the five million dollars paid in connection with the lease transfers. Can you explain briefly what you found out about that?

Mr. Spencer: Disposition of the five million dollars by whom, Mr. Lange?

Mr. Lange: By the Amarillo Oil Company.

Mr. Spencer: Oh, yes.

The Witness: Well, I have a transcript of the accounts as they appear on the books of Amarillo Oil Company.

By Mr. Lange:

Q. Do you have that here?
A. Yes, sir.
Q. Will you get that out of your working papers?
A. Yes.
Q. Do you have those now?
A. Yes. Do you wish me to put into the record all of the transactions relating to it?
Q. As the transcript disclosed it, yes.

Mr. Spencer: Before you start, is this a transcript that you have there taken from the books and records of Amarillo Oil Company?

The Witness: That is correct.

Mr. Spencer: All right.

By Mr. Lange:

Q. All right, just explain the history of the proceeding from that transcript taking up the larger items as they appear from that transcript.
A. The five million dollars paid by Canadian River Gas Company for the purchase of properties from Amarillo Oil Company was paid in two instalments. The first instalment of two and a half million dollars was paid on December 8, 1927 and the second was paid on January 13, 1928. This amount was recorded on the books of Amarillo Oil Company as a book entry and charged against Prairie Oil & Gas Company--special account.

Out of the proceeds, Prairie Oil & Gas Company during December 1927 paid obligations of Southwestern Development Company in the amount of $393,943.27 which amount was charged to Southwestern Development Company account on the books of Amarillo Oil Company.

"In December 1927 Prairie Oil & Gas Company paid various obligations of Amarillo Oil Company amounting to $625,962.18 which was charged to notes payable account on the books of Amarillo Oil Company. In December 1927 Prairie Oil & Gas Company credited Southwestern Development Company for amounts due it aggregating $1,269,000.

On the books of Amarillo Oil Company this amount was charged to Southwestern Development Company.

In January 1928 funds in the amount of one million dollars were advanced to West Texas Gas Company and on Amarillo Oil Company's books this amount was charged to West Texas Gas Company.

In January 1928 funds were used by Prairie Oil & Gas Company to pay indebtedness of Southwestern Development Company in the amount of $567,316.43. This amount was charged to Southwestern Development Company's account on the books of Amarillo Oil Company.

In January 1928 Prairie Oil & Gas Company advanced $196,000 to the Southwestern Development Company. This amount likewise was charged to Southwestern Development Company on the books of Amarillo Oil Company.

In February 1928 Prairie Oil & Gas Company paid off the first mortgage bonds of Amarillo Oil Company in the amount of $300,000. This amount was charged to first mortgage bond account of Amarillo Oil Company.

Now, that covers most of the large items which I have in there and I think with a very minor exception it almost accounts for the whole five million dollars.

Q. Are there any further explanations that you have of that transaction as to what it represents on the books of the Amarillo Oil Company?

A. I don't quite understand your question.

Q. As to the disposition of the cash in so far as Amarillo Oil Company is concerned?

A. I think that the testimony which I have just read here indicates that all of these transactions are what is called book entries and do not involve the cash of Amarillo Oil Company.

Q. Well, then, from those entries did Amarillo Oil Company get any cash out of that?

A. The account indicates that Amarillo Oil Company received in the neighborhood of $310,000 in cash.

Q. Out of the total amount?

A. Out of the total amount of $5,000,000.

Q. Now, referring to Exhibit No. 146 again, let's turn to the entry on Page 48.

A. Yes.

Q. That is Adjusting Entry No. 248.

A. Yes, sir.

Q. In connection with that entry you were interrogated as to the items of property, so-called, that Amarillo Oil Company retained when it made the sale of its leases to Canadian River Gas Company?

A. Yes, I was.

Q. Among those were contracts that Amarillo Oil Company retained?

A. That is correct.

Q. What value, if any, did those contracts recorded on the books of the Amarillo Oil Company have?

A. As of June 30, 1928 there was no value recorded for contract, that is, gas contracts, on the books of Amarillo Oil Company.

Q. You are now referring to the contracts concerning which you were interrogated by Mr. Spencer on cross examination regarding this entry?

A. Yes, sir; that is, as I understand it.

Q. I believe you stated on both direct and cross examination that the supporting schedules on Page 49 of the exhibit immediately following was prepared by you?

A. Yes.

Q. And that you knew the facts and circumstances in connection with the preparation of this entry?

A. Yes.

Q. Have you any explanation you can make at this time with reference to that entry?

A. I have some additional information relating to the item of $81,250 shown in Journal Entry No. 248. In my previous testimony I stated that Canadian River Gas Company paid interest on amounts due Amarillo Oil Company from the period from May 1, 1927 to June 30, 1928, amounting to $79,000 plus.

In reviewing my papers I find that Voucher No. M-14,

December 1928, recorded on the books of Amarillo Oil Company shows that Amarillo Oil Company received \$160,272.41 in interest and paid the sum of \$81,250, leaving a net amount of \$79,022.41. The amount of \$81,250 which was deducted in this transaction was classified as interest on the books of Amarillo Oil Company and is the item as related to the amount of \$81,250 shown in our Journal Entry No. 248.

Q. Does that complete your answer?

A. Yes.

Mr. Lange: I believe that is all for the present.

Recross Examination.

By Mr. Spencer:

Q. Now, going first, Mr. Luttring, to the payment of five million dollars by Canadian River Gas Company to Amarillo Oil Company for the properties and rights which you have discussed here in your Exhibit 148, you have testified that the purchase price was paid in two instalments of \$2,500,000 each; one in December of 1927 and one in January of 1928, is that correct?

A. That is correct.

Q. And you have also testified heretofore that Canadian River Gas Company was incorporated in February of 1928?

A. That is correct.

Q. You have also testified that the basic agreement covering the purchase and sale of these properties at a price of five million dollars was entered into between Southwestern Development Company and Standard Oil Company of New Jersey, and Cities Service Company, in April of 1927?

A. That is correct.

Q. You have also testified that the sale of the properties at a five million dollar consideration was contingent upon approval of titles, is that correct?

A. That is ordinarily true. I don't know whether that provision was in there or not.

Q. You have made an examination of the books and records of the Canadian River Gas Company and Amarillo Oil Company with respect to this transaction, have you not?

A. Yes, I have.

Q. Now, based upon that examination, can you tell me

why the purchase price of five million dollars was paid in the first instance to the Prairie Oil & Gas Company?

A. Well, neither Canadian River Gas Company or Colorado Interstate Gas Company had banking facilities—

Q. Let me fresh your—

A. And—

Q. Excuse me. Go ahead.

A. If I remember the transaction correctly, the money came directly from Standard Oil Company.

Q. Right.

A. Do I need to go any further than that?

Q. I can help you out by asking you some more questions.

Is it not a fact that Amarillo Oil Company needed the money to clean up its title situation and for other purposes; that Canadian River Gas Company had not yet been organized; that the Standard Oil Company of New Jersey agreed that it would advance the five million dollars representing the purchase price of these gas rights and properties, provided it could be paid to the Prairie Oil & Gas Company, which company would remain responsible for the return of the full purchase price in the event Amarillo Oil Company failed to clean up its title situation satisfactorily; and isn't that the reason why it was paid in that manner, and isn't that the reason the money was retained by the Prairie Oil & Gas Company, because it was responsible for the return of those funds to the Standard Oil Company of New Jersey if for any reason the sale was not consummated? Didn't you go far enough in your examination to know that those were the facts?

A. I happen to know something about Prairie Oil & Gas Company and I imagine the reason it was done was because it was a responsible party.

Now, as to anything in writing along those lines, I don't recall anything like that.

Q. Now, you have said here that Amarillo Oil Company received only $300,000 out of the total consideration of five million dollars. I am sure you do not desire to leave any impression in this record that Amarillo Oil Company did not receive by way of cash, credits, or otherwise the full amount of this purchase price.

A. I think you misunderstood my testimony—I read an amount that would cover notes payable—that covered notes payable to Amarillo Oil Company that were paid off in the amount of some $625,000; I read another of $300,000—

Q. If I misunderstood you I can shorten that up quickly by asking you this:

Ultimately the Amarillo Oil Company received by way of credits or otherwise the full amount of the purchase price of five million dollars?

A. Yes.

Now, the only purpose, as I understand it, of putting this in is to show that Prairie Oil & Gas Company handled the cash.

Q. All right, we agree to that. In other words, there was a million dollars advanced to the West Texas Gas Company by Amarillo Oil Company?

A. That is correct.

Q. You are familiar enough with it to know that that amount was paid by West Texas Gas Company to Amarillo Oil Company?

A. In the form of stock.

Q. Not to Amarillo Oil Company?

A. It went through Amarillo Oil Company's books.

Q. That is right. The truth of it is that eventually the bulk of this five million dollar consideration was distributed by Amarillo Oil Company to Southwestern Development Company as a dividend?

A. You have reference to the excess of the amount received over the net assets which they sold?

Q. Yes. That would be the amount shown in their surplus?

A. It was declared as a dividend to Southwestern Development Company.

Q. Now, with respect to your Entry No. 248, Page 4, Exhibit 146, the additional information you have supplied this morning as I understand it is this: that Amarillo Oil Company received interest during this development period which you have indicated in the amount of approximately $160,000, and they paid out interest of $81,250—the latter figure being the figure shown—and the first figure shown in your Journal Entry No. 248?

A. That is correct.
Q. I believe we have covered that before.

The $81,250, no matter what we may call it, represented an additional consideration for gas taken from these properties by Amarillo Oil Company during this period?

A. I believe you can apply that thought to it.
Q. All right, when you get all through, this $81,250 represents the cost of gas to Amarillo Oil Company, is that not a fair statement?
A. Well, according to your interpretation, yes.
Q. I don't want my interpretation: I would like to have your interpretation.
A. I can't interpret the—
Q. Let me ask you this: If there had been no contract between Amarillo Oil Company and Canadian River Gas Company covering the sale of gas to Amarillo Oil Company, and if, consequently, there had been no sales of gas, then am I correct in saying there would have not been any payment of $81,250 by Amarillo Oil Company to Canadian River Gas Company?
A. Will you read that back?

(The question referred to was read by the reporter, as set forth above.)

The Witness: I don't understand the question.

Mr. Spencer: Read it again.

(The question referred to was reread by the reporter as set forth above.)

The Witness: I can't break that question up.

Mr. Lange: Can you break it up for him?

The Trial Examiner: Don't you understand the question, Mr. Luttring?

The Witness: No, I don't.

Mr. Spencer: I will try again.

Q. Isn't this payment of $81,250 related directly to the sale of gas during this period by Canadian River Gas Company in effect to Amarillo Oil Company?
A. Yes.

Q. And if there hadn't been any sales of gas or contracts relating to those two parties, there would have never been the payment of $81,250, would there?

A. No.

Q. And the $81,250 payment made by Amarillo Oil Company is not included on your schedules in Pages 49 and 50 of Exhibit 146?

A. No, because I don't think they should be there.

Q. You don't?

A. No.

Mr. Spencer: All right, we will let the record stand on that.

Redirect Examination.

By Mr. Lange:

Q. Referring back to Entry No. 211, Page 17, do you know of your own knowledge, Mr. Luttring, whether or not Amarillo Oil Company had any authority or exercised any authority in the disposition of that five million dollar amount?

Mr. Spencer: Just do you know?

Mr. Lange: That is what I asked.

Mr. Spencer: I wanted to hold him down.

The Witness: It seems to me that my testimony on that question has been given. The account indicates that they did not have custody of the funds.

By Mr. Lange:

Q. What did you say?

A. I said that Amarillo Oil Company did not have custody of the funds.

Mr. Spencer: That is all of the conclusions you draw, to-wit, the Amarillo Oil Company did not have custody of the funds?

The Witness: That is correct.

Canadian's WITNESS LUSK testified as follows: (Vol. LXXVIII, pp. 11415-11417.)

Q. Now, on Page 15 of your written statement you refer to the matter of the development period of the company. Are you referring there to the Amarillo Oil Company?

A. Yes, to the Amarillo Oil Company.

Q. Well, what, in your opinion, was the time the development period of the Amarillo Oil Company ended?

A. Well, my own thought on the development period of the Amarillo Oil Company's particular leases, the development period ended when the Denver line gas came in.

Q. Well, how do you arrive at that particular point?

A. Well, that is my own thought, that prior to the time of the Denver line gas and the promoters of the Denver line project came in, there was more gas down there than the Amarillo Oil Company knew what to do with. In other words, they had plenty of gas but no place to put it.

Q. You mean there was no place to put all of it. There was a place to put some of it.

A. Very little.

Q. At that time, how much gas was being sold by the Amarillo Oil Company?

A. At the end of—for the year 1927 the total amount sold at 16.4 pounds pressure by the Amarillo Oil Company—

Mr. Spencer: What was the date of this period?

The Witness: This was the year 1927.

From the 23-½ wells that were turned over to the Canadian River Gas Company and being produced from the oil and gas lands that were transferred to the Canadian River Gas Company, there was 5,949,663 Mcf.—approximately six million M.

Q. For the year 1927?

A. 1927.

Q. Whom were those sales to?

A. Principally to the Panhandle Pipe Line Company and the smelter.

Q. The Panhandle Pipe Line Company is the one that transported it to the City of Amarillo?

A. That's correct.

Q. And it sold it to the city gate—sold it at the city gate to the Amarillo Gas Company?

A. I believe that is correct, yes, sir.

Q. And the Amarillo Gas Company distributed it in Amarillo and vicinity?

A. I believe so, yes, sir.

Q. Well, you say that 5,000,000 Mcf.—

A. 6,000,000 M.

Q. That wasn't an amount sufficiently large to say that the development period of the Amarillo Oil Company had been concluded, or was that the point that you say that their development period ended?

A. My record is that a great many of the wells that were productive of gas and were really flush producers were shut in.

Q. Now, what were the sales of gas by the Amarillo Oil Company in 1926? Have you got your total there?

A. Yes. The total production in 1926 on a 16.4 pounds pressure base was 4,658,000 Mcf.

Q. 1925?

A. 3,848,000 Mcf.

Q. And in 1924?

A. 2,892,000 Mcf.

Q. Now let's begin with 1924. Were those sales largely to the Panhandle Pipe Line Company?

A. And the smelter.

Q. To the Panhandle Pipe Line Company and the smelter?

A. That's right.

Q. The same for each of the years?

A. Yes.

* * * * *

Mr. Lusk further testified: (Vol. LXXVIII, pp. 11443-11444.)

Q. Now, I believe you gave to Mr. Lange the total production of Amarillo Oil Company for the years 1924 to 1927, inclusive.

A. I did.

Q. Those total sales fall into two categories, sales at

the well to Panhandle and sales to the zinc smelter, is that correct.

A. That is correct.

Q. Now, will you give me the sales for those years on the same pressure base which were made by Amarillo Oil Company to the zinc smelter?

A. From the wells—

Q. Starting in 1924.

A. From the same wells that were transferred to the Canadian River Gas Company as of May 1, 1927, and in relation to the Mcf. figures that I read into the record at the beginning of 1924 and ending with 1927, out of those total—out of the total Mcf. the sales to the smelter—

Q. By whom?

A. Amarillo Oil Company—in 1924 on the same pressure base was 1,368,600 Mcf.

In 1925 it was 1,906,500 Mcf.

In 1926, 2,515,900.

In 1927, 3,508,900.

The Trial Examiner: Were those last two figures both Mcf.?

The Witness: They are all Mcf., yes, sir.

By Mr. Spencer:

Q. I believe you stated heretofore that the sales to the Panhandle Pipe Line Company were made in the field at the well by Amarillo Oil Company?

A. That's correct.

Q. Do you happen to have the figure there of the production from these same wells that you have used here in 1929, after the Denver market was attached?

A. Yes, sir.

Q. Give me that total figure, please.

A. In 1929 the production from those same wells was 12,328,300 Mcf.

Canadian's WITNESS RHODES testified: (Vol. XXXII, pp. 4523-4524.)

Recross Examination.

By Mr. March:

Q. Did your management service include both the management of Canadian River Gas Company and Colorado Interstate Gas Company?

A. It did.

Q. And your relationship with the two companies was identical?

A. Substantially. We consulted different men in connection with some of the policies on Canadian River Gas Company than we did on Colorado Interstate Gas Company but otherwise the relations were substantially the same.

Q. Did you consult Mr. Moody?

A. Yes.

Q. In regard to what company?

A. Primarily the Canadian River Gas Company.

Q. Did you ever consult him in regard to Colorado Interstate Gas Company?

A. Yes, we consulted him as representing one of the big stockholders of Colorado Interstate Gas Company.

Q. Did you consult the stockholders separately or did you consider Standard spoke for that group?

A. They were consulted separately but I think we consulted Mr. Payne rather than Mr. Moody.

Q. In regard to Canadian River Gas Company?

A. In regard to the property as a whole.

Canadian's WITNESS HENDEE testified: (Vol. III, pp. 308-309.)

Direct Examination.

By Mr. Brock:

Q. Mr. Hendee, I believe you have prepared a brief statement in which you disclose your name and your occupation. Will you proceed to read it?

A. (Reading)—"My name is Robert W. Hendee. I am now manager of Canadian River Gas Company and Colorado Interstate Gas Company, and have been since July 15, 1936. About that time the management contracts these two companies had with Ford, Bacon & Davis, Inc. were termi-

nated, and I was employed by the companies. I succeeded Frank J. Trelease, who, as representative of Ford, Bacon & Davis, Inc. had been for some years the manager of the two companies.

* * * * *

Mr. Hendee further testified: (Vol. III, p. 314.)

Q. Where does Mr. Gallagher have offices in New York?
A. 30 Rockefeller Plaza.
Q. The offices of Standard Oil?
A. Yes.
Q. Does Mr. Moody have his offices there too?
A. No, Mr. Moody has his offices in Tulsa, Oklahoma.
Q. He has offices with Standard Oil there in Tulsa?
A. No, there in the Sinclair offices.
Q. The Sinclair offices?
A. Yes.
Q. What do you mean by "Sinclair offices"? Consolidated Oil Corporation or Consolidated Sinclair Corporation or, what?
A. They are a group of Sinclair offices. As I know them, Sinclair-Prairie Oil Marketing Company and Sinclair-Prairie Oil Company, quite a group of Sinclair operating companies.

* * * * *

And again in Vol. III, pp. 319 and 320, Mr. Hendee testified:

Q. Yes, I understand that. Who did you report to in your company?
A. To Mr. Lerch and to Mr. Moody afterwards.
Q. Who do you regard as your real boss?
A. I have two bosses. One is just as equal as the other.
Q. Who?
A. Mr. Lerch of Colorado Interstate and Mr. Moody of the Canadian River Gas Company.
Q. Did you ever consult with Mr. Gallagher?
A. I haven't consulted with him once since I took the job.
Q. Do you know whether or not your superiors report to him or not?
A. No, I do not.

The complete testimony of F. C. Spencer and the testimony of Christy Payne, Nelson K. Moody, W. S. Fitzpatrick, and Harry D. Hancock relating to this and connected matters are set forth above in Title 2 of this printed record under the heading, "2. The Agreement Between Southwestern Development Company, Cities Service Company, and Standard Oil Company (N. J.) to Undertake the Project of Constructing the Pipe Line From the Texas Panhandle Field to Denver," and the testimony of Commission witness, Carl H. Schutte, with reference to the corporate history of Canadian is set forth above in Title 4 under the heading, "4. Incorporation, Objects, Powers, Capitalization, and Financing of Canadian River Gas Company."

Commission Witnesses Luttring and Teel removed from the Gas Plant Account the aggregate sum of $555,867.62 for interest during construction (Entries 246 to 249, inclusive, Ex. 146).

The company's books showed interest during construction capitalized in the amount of $556,897.95. This adjustment reduces interest during construction down to $1,030.33 by a series of adjustments, which in the first place eliminates all of the interest actually paid and capitalized, then recomputes interest during construction on a different basis, and deducts from the recomputed interest earnings claimed to have been made by Amarillo Oil from its operations during the period May 1, 1927, to May 31, 1928, and finally a deduction was made from the recomputed interest claimed to represent interest on the appreciated value "of the leaseholds" (Entries 246 and 249, inclusive).

Commission Witness Teel testified: (Vol. XLI, pp. 5660-5675.)

Q. Now, your Entry No. 246 on Page 47 of Exhibit 146 has to do with interest during construction that was capitalized by the company, Mr. Teel?

A. That is correct.

Q. And your first entry as you say here is for the purpose of clearing the interest account preparatory to setting up revised interest as computed by Examiner of Accounts of the Federal Power Commission?

A. That is correct.

Q. In other words, you take out the full amount of interest capitalized during construction by the company in the first instance and throw it over into what you call gas plant adjustment account 107?

A. That is correct.

Q. And from that point you pick up various items involved in this transaction and distribute them in various and sundry ways in subsequent entries?

A. That's true.

Q. In this exhibit?

A. That is true.

Q. Would you say that throwing it into Account 107 in the first instance is a matter of convenience or is that first operation in accordance with the Code?

A. In this particular case it is a matter of convenience, the idea being to clear the interest account and then to set up the amount which has been computed.

Q. Now, at some subsequent point in your exhibit, I believe you have a schedule which shows the detail of the interest during construction capitalized by the company in the amount of $556,897.95?

A. That's correct. The interest sechedules of which there are, I believe, one schedule and seven supporting schedules, appear first on Page 138 of Exhibit 146.

Q. 138?

A. That's correct.

Q. Now, if the Examiner wanted to find the detail of the payment of interest during construction as made by the company and as recorded on the books, he would look where?

A. 13-B-1, which is on Page 139. The notation at the bottom of the page 138 refers to that schedule.

Q. And Sub-schedule No. 13-B-1, commencing on Page 139, shows the details of the company's interest payments during construction which it has capitalized on its books?

A. That is correct.

Q. Commencing in December 1927, and running through to October 1928?

A. The last entry on the interest account, according to the books, is found on Page—well it is a continuation of that schedule, Page 141, and that is dated December 1928,

and is in the nature of an adjustment made by the company.

Q. The periods for which the company capitalized interest, however, terminated October 1, 1928?

A. That is correct.

Q. And the subsequent entries that you show in this account on Page 144 are all in the nature of corrections or transfers?

A. That is correct.

Q. To that account?

A. That is right.

Q. Now, it is clear here that the figures that you show in this Sub-schedule 13-B-1 are taken from the books of the company?

A. Yes.

Q. The description of the items is your description?

A. Yes, in part. That description was based on information on the vouchers of the company.

Q. I see. Now, as to the total amount shown here in this account, to-wit: $556,897.95, is the same amount that you have in your Entry No. 246. I take it there is no question but what the company paid the amount shown for interest, as shown on its books?

A. As shown by its books.

Q. You aren't questioning the fact that the payments were made?

A. No.

Q. Subsequent dealings with this particular amount are in the nature, let us say, of criticism of the way it was recorded on the books of the company?

A. Well, criticism might be used, yes.

Q. Or would you say constructive suggestion as to changes?

A. I would prefer the latter.

Q. All right, but we are clear that you have no question but what the company actually paid this money during the period mentioned for interest?

A. The money was paid by the company during this period as indicated by this schedule.

Q. Now, we get down to your next account, No. 247, and you start over again, don't you, by setting up a new amount in an interest during construction account, and

charging that against the gas plant adjustment account, the amount shown being $460,435.86?

A. That is correct. However, it is credited to the gas plant adjustment account and again charged to interest during construction.

Q. Yes. I should have reversed my expression since it is a debit account. Now, as I understand it, there is no difference between the amounts shown in Entry No. 246 and the amounts shown in 247, except that you have computed the interest during construction for a different period?

A. That is partly true. I have also used a different method, a different formula for computing the entries.

Q. Now, you have a detailed schedule for this amount of $460,435.86 as shown in Entry No. 247.

A. Schedule 13-B-3, which is found on Page 143 of this exhibit, which indicates the component parts of that total, $460,435.86. Under the first column to the left of that schedule is indicated the number of the sub-schedules which details the derivation of the interest which is shown on Column 5 of that schedule.

Q. Well, then, you have in this entry reconstructed the interest during construction charges on a different basis than that pursued by the company?

A. I have reconstructed the interest and used as a basis the construction expenditures which I found on the company's books.

Q. Could we understand how you did that by having you explain the items in sub-schedule No. 13-B-3 on Page 143, or will we have to go to the schedules supporting that sub-schedule?

A. I believe it would be more easily understood if we refer to the sub-schedules which support that. There were so many items concerned in this that it was thought better to break them down rather than have one long schedule made of it. The sub-schedules take up each separate item and indicate the method used.

For instance, Page 144 indicates the amount of interest as computed by me on the original 5,000,000-dollar transaction.

Q. All right, let's go through by sub-schedules support-

ing sub-schedule No. 13-B-3, then. Take the first one on Page 144. There you have allowed interest on five million dollars at the rate of six per cent per annum for the period May 1, 1927 to July 1, 1928, 426 days which results in $350,000. I should say $350,136.99.

A. That's correct.

Q. Now, at first glance it would appear there that you were going to allow interest during construction on the full five million dollars, wouldn't you?

A. That's correct.

Q. But that is an illusion a little later, isn't it?

A. Later on there are certain parts of that eliminated.

Q. But for the moment we are going to be happy. Later on things happen to it. I think that is enough with reference to that one.

The next is expenditures by Amarillo Oil Company per its statement for drilling of wells, acquisition of leases, and so forth. That is the second item on Sub-schedule No. 13-B-3-2.

A. That is located on Page 145.

Q. The supporting schedule for that is located on Page 145?

A. Yes.

Q. Did you make any adjustment in there, or is that just in accordance with the interest statement made up by Amarillo Oil Company and paid subsequently by Canadian River Gas Company for this work?

A. That is right. There are no adjustments in that.

Q. Either here or later, is that right?

A. I think that is probably right.

Mr. Spencer: The reason that I have to watch you is that this thing is tricky. You are in and out. I am not impuning your motives or anything: it is just a little tricky for me to understand sometimes.

The Witness: I'll try to explain any part of it.

By Mr. Spencer:

Q. Now, the next item which is the first item on Sub-schedule No. 13-B-3 is construction by Ford, Bacon & Davis per their books.

A. That is—

Q. A, B, C, and D items, and you arrive at a total of $3,826,945.81, and that is supported by four sub-schedules: 13-B3-3a; 13-B3-3b; 13-B3-3c. and 13-B3-3d. Those appear at Pages—

A. Those start with Page 146 and continue on 147, 148 and 149.

Q. Now, for the moment, you allow interest on these charges as per books during the periods which you describe here on Sub-schedule No. 13-B3?

A. That is correct When you say "allow interest," I assume you mean the figures that I used, the basic figures here, and the interest as computed on this particular schedule?

Q. That is right. There are no changes in those accounts?

A. I don't believe there are any changes made that affect this particular group of accounts. There are no adjustments on that particular group of accounts.

Q. And the last item preceding Examiner's adjustment on Sub-schedule No. 13-B3, is construction by Canadian River Gas Company during the month of June 1928?

A. That is correct.

Q. And I assume that there are no adjustments in that?

A. That is correct, there are no adjustments to that figure.

Q. Then you arrive at the total figure $460,435.86 on Sub-schedule No. 13-B3 which is the same figure that you are using in your Adjusting Entry No. 247.

A. That is correct.

Q. Now, give me the reasons which you had in mind and the purposes to be served in changing the method or manner of computing the company's interest during construction charges as you have done in Entry No. 247. I am only asking for a general answer to that question. I suppose more specific answers will show up later here, but you have proceeded here in certain steps, Mr. Teel, to arrive at a final result, and I wanted to get your ideas behind your second step here which is No. 247, is that not correct?

A. That is correct. The purpose in making this revised computation was brought about by the fact that the company's records did not clearly indicate the connection be-

tween the expenditures on which interest was paid and the properties acquired or construction performed. I think that would refer primarily to the 5,000,000-dollar transaction—I don't mean that either. The schedule—

We'll let that suffice for the moment, but we were unable to identify the payment of interest on the certain bank loans and other sums with the property. The rates of interest varied on the loans which in itself was not damaging but it was not all computed on the same basis and it was computed on a construction period which was in excess of the actual period of construction.

Q. Well, I think that is apparent that one of the first things that you thought needed correction was the period during which interest during construction was to be computed.

A. That is correct. That was one of the primary considerations.

Q. Well, let's discuss that for just a moment. We might as well put it in here. What was your basis for establishing the period which you have set up as being proper for the capitalization of interest during construction?

A. The basis?

Q. Yes.

A. I'll refer you to the written statement, Page 7.

Q. Page 7 of this exhibit?

A. Page 7, the written statement which Mr. Luttring read in, in connection with the introduction of this exhibit.

Q. Oh, yes. I have entirely ignored this, I think.

All right. Go ahead.

A. About half-way in the page, the sentence starts:

"Schedule No. 13-B3." The second sentence following that sentence is the one I have in mind:

"In making the interest during construction computation the Examiner has used the same date for the start of construction as the company has, namely, May 1st, 1927, but has used a different date for the end of the construction period, namely, July 1st, 1928; the company has used October 1st, 1928 as an ending date. The reason why the Examiner used July 1st, 1928 as an ending date is that sub-

stantial deliveries of gas were made to the three principal customers of the company in June 1928, for the first time, and continued thereafter. In this connection, a notation on a Ford, Bacon & Davis voucher (G-20) is important. It reads: 'Capitalize deliveries June 1-18, inclusive, charging same to 226-9. Charge deliveries June 19-30, inclusive, to operations.' Initial deliveries were made to Colorado Fuel & Iron Company on June 19th, to Pueblo Gas & Fuel Company on June 21, and to Public Service Company of Colorado on June 23."

That's all of the year 1928.

Q. Of course, the company's construction program was not fully completed as of July 1, 1928?

A. That is correct.

Q. I assume your point is that if the company was going to capitalize interest it would have to credit against that interest the revenues it received during the period following July 1928, is that correct?

A. That is correct.

Q. And as to the commencement date, you have used the same commencement date that appears on the books of account of this company?

A. I believe.

Q. That is the first time a charge appears in that account, or about that time?

A. Yes, May 1, 1927, is that date, and it is referred to several times in the company's records and the interest charges I believe start with that period with that day.

Q. All right, I think that's enough on that.

Now to get back on the different methods that you have employed here in computing interest during construction, it is a fact that the company's account entitled "Interest During Construction" does represent actual expenditures for that purpose?

A. As far as it is indicated by the records, that is true.

Q. Is there any more than one accepted method—and I mean accepted by accounts—for computing interest during construction on a project such as this?

A. Yes, sir.

Q. How many would you say there were?

A. Well, I know one other method which is accepted as a proper accounting practice.

Q. Would you say that the company's method was an accepted method, the one that followed eliminating the difference of opinion regarding the period?

A. I would say that would be acceptable provided that the loans on which interest was paid could be identified with the purchase or acquisition of property acquired or construction performed.

Q. You do not feel that the company's books and records were sufficiently complete in that respect?

A. To support the interest charges for construction of this property, no, I do not think they are.

Q. Now, the method you have used is another method?

A. That is correct.

Q. In other words, is it a fact that your method allows interest on all money employed in the project during the period of construction, whether any interest was actually paid on it or not? Is that a correct statement?

A. That is correct, on construction expenditures.

Q. The company attempted to base its interest during construction on actual payments. You proceed on the theory that the company is entitled during a proper period to interest on moneys invested?

A. During this construction period.

Q. That is what I gather is correct.

A. Yes.

Q. What bank loans did you have in mind that weren't sufficiently explanatory as to rates of interest or other information?

A. I'll probably have to get that from my working papers. I don't see the detail on the statement here that I thought was in this particular schedule. I'll see if I have that here.

Q. Well, maybe I could shorten that up for you.

Can you identify the item you refer to in your Schedule No. 13-B1, commencing on Page 139, identify the item that you have in mind, and perhaps I can help you?

A. The items that I referred to are contained in the interest figure of $128,319.67, which appears on Page 140 of Schedule 13—or of this exhibit. It is on Schedule 13-B1, Page 2, and is identified as interest from various dates in

1927 to December 8th, 1927, as paid on loans and bonds by Southwestern Development Company and subsidiaries prior to the date the first $2,500,000 of Canadian River Gas Company funds were available, on December 8th, 1927.

Q. Those weren't bank loans, were they?

A. There were some references—there were some bank loans, as I remember, in that statement.

Q. Is that the only point at which you found insufficient information to make the accounting practice followed by the company inacceptable?

A. Well, I wouldn't say that was the only point. I think there are some others, and I am not able to identify them right at the moment. I think the ones which I refer to are substantially all in that particular voucher.

Q. Do you think that the lack of information, did I understand you to say, made the company's method inacceptable, or did you mean it merely to be "doubtful"?

A. The point I meant to make was that it was not possible to associate the interest paid with the expenditures made for the account of Canadian River Gas Company.

Q. I don't want to pursue it any further than is necessary. I want to come to this, that if there was any lack of information about what was involved in this transaction, is it my fault that such information was not furnished the Commission or is it the Commission's fault that the Commission did not ask me for more?

A. Well, that I don't think I could answer. The records as examined did not supply—the company's records did not supply the information which was needed and in setting up the revised, or the method which I have used, I find that for the same period of time which the company used that it yields a larger amount of interest.

Q. I think that is true, Mr. Teel. Don't misunderstand me. I merely am stopping here because the record indicates that you couldn't support something here for lack of information, and isn't it a fact that you got all the information that you asked for and even if you had had more information, you would have done what you did do?

A. I am not entirely sure that I would have. If the company's records which were made available to us to examine had tied in definitely with the acquisition of the properties, I don't—

Q. As far as you know, have you got any unanswered inquiries on this subject?

A. As far as I know, there haven't been.

* * * * *

MR. TEEL further testified on cross-examination: (Vol. XLII, pp. 5679-5699.)

Q. Mr. Teel, will you turn to your Entry No. 247, Page 47 of Exhibit 146. Now, that entry represents the amount of interest during construction which you have computed for Canadian River Gas Company during the period May 1, 1927 to July 1, 1928?

A. That is correct.

Q. And based upon your investigation and examination, you have fixed May 1, 1927 to July 1, 1928 as the proper period to be considered as the construction or development period of Canadian River Gas Company?

A. That is correct.

Q. Now, had you used the same method of computing interest during construction but extended the period of construction to October 1, 1928 as the company did on its books, that, of course, would have increased the amount shown for interest during construction?

A. That is correct.

Q. And I believe—have you a schedule which indicates what that amount would be.

A. Yes, that is on Page 142 of this exhibit under Schedule 13-B2, Column 5 of that schedule showing the interest calculation, using my method and the time period of the company; that is, extending the period to October 1.

Column 6 shows the interest as recorded on the books.

Q. Now, will you put in the record right at this point the amount of interest during construction which would have been charged under your method had the construction period been extended to October 1, 1928?

A. On the basis as shown in Entry 247 before adjustments the interest which would have been recorded would have been \$605,608.05.

Q. And I take it you put that schedule in merely for informative purposes?

A. That is correct.

Q. You have not adopted or accepted that figure, however, because you do not agree with the period?

A. That is correct.

Q. As being applicable to construction?

A. That is correct.

Q. Now turn to your Entry No. 248 on Page 48 and I take it that this is your first adjustment against the interest during construction which you allow in your Entry No. 247?

A. That is correct.

Q. Now, can you explain in simple language what this adjustment is?

A. This adjustment which credits interest during construction in the amount of $214,552.27 and charges surplus with $81,250, and gas plant adjustment with $133,302.27, represents the earnings of the properties originally purchased from Amarillo Oil Company under their contract dated May 1, 1927. The earnings—

Q. Excuse me. You mean ~~the contract~~ dated April 5th, 1927?

A. That is correct, April 5th. The figure $214,552.27 is the result of the computation made by Mr. Luttring in his examination of the Amarillo Oil Company records and is the earning of those properties for the thirteen-months period from May 1, 1927, to June 1, 1928.

Q. The net result of the entry being that you have reduced interest during construction by an amount of $214,552.27?

A. That is correct.

Q. Representing profits made by the Amarillo Oil Company on the property sold during your period of construction?

A. That is correct.

Q. And that amount is charged to two accounts?

A. That is correct.

Q. $133,302.27 being charged to the gas plant adjustment account 107, and the other item of $81,250 being charged to surplus?

A. That is correct.

Q. The $81,250 is an amount that was paid to Canadian River Gas Company by Amarillo Oil Company for gas during this period?

A. That is correct.

Q. Do we come to that later?

A. I believe that is taken up in the income exhibit of Canadian River Gas Company. It doesn't appear anywhere else in this particular exhibit, however?

Q. It doesn't?

A. No.

Q. Well, I don't want to get too far off the track, but I believe that we better put into the record at this point a little further explanation of the $81,250, unless it is covered in your notes down here sufficiently.

A. The second paragraph on Page 48 under the explanation of Entry No. 248 reads—

Q. You don't need to read it if you think it covers it sufficiently.

A. I think it explains it. That is the basis for the adjustment and the reasons for the charge. That should be amended to include the first paragraph also.

Q. Now, you mention the agreement of January 3rd, 1928 between the Canadian River Gas Company and the Amarillo Oil Company covering the purchase and sale of gas and under the provisions of that contract, I assume the parties provided a method for determining the cost of gas, the purchase price of gas to Amarillo Oil Company up to the time that Colorado Interstate Gas Company commenced taking deliveries.

A. I am not quite familiar with the entire portions of that. I believe this agreement covers the cost of gas to the Amarillo Oil Company and the information I have on it is that which is shown here.

Q. Are you familiar with the agreement dated April 5th, 1927 between Southwestern Development Company and Standard Oil Company of New Jersey and Cities Service Company covering the origin of the so-called Denver property?

A. Yes, I have read that agreement.

Q. Did that agreement also make provision for the purchase price to be paid by Amarillo Oil Company for gas prior to the time that Colorado Interstate Gas Company commenced taking deliveries?

A. I don't recall.

Q. Well, is it not a fact that the $81,250 represents the cost of gas during this period to Amarillo Oil Company?

A. In accordance with Section 6 of the agreement dated January 3, 1928.

Q. And by the same token it then represents a receipt by Canadian River Gas Company for the sale of gas?

A. Yes.

Q. Would it be correct to say that as between those two companies, then, it was not an interest entry?

A. That is correct, between those two companies it was not an interest entry.

Q. Did the agreement which you mention here in the paragraphs on Page 48 to which you have referred and also the agreement of April 5th 1927 which I have mentioned provide that Amarillo Oil Company during this period should receive its gas at cost plus a percentage or fractional part of the interest paid by Canadian River Gas Company on its outstanding indebtedness?

A. I believe that is right.

Q. I assume that the $81,250 paid by Amarillo Oil Company to the Canadian River Gas Company for gas during this period was credited to income at that time and you are in effect here reversing that entry?

A. That is correct.

Q. Now, on what theory do you deduct from the interest during construction account this purported profit made by Amarillo Oil Company during the construction period on properties sold to Canadian River Gas Company?

A. This theory is based on the fact that Amarillo Oil Company operated these properties during this period and that in the prior entry I have set up interest on the total purchase price paid Amarillo Oil Company for these properties.

Following that, if interest is allowed on the purchase price of the properties, then interest should be decreased by the amount of revenue received from those properties during that period.

Q. Did Canadian River Gas Company receive the $214,-552.27 profit which you set up here?

A. No, sir.

Q. It never did?

A. It never received that profit.

Q. Do you know of any contract under the terms of which it was entitled to receive this profit?

A. The Canadian River Gas Company?

Q. Yes.

A. No.

Q. Well, go a little further with your theory, then. It is not clear to me yet just why you make this deduction from Canadian River's interest during construction account or for profits which it never realized or received and which it was not entitled to receive under any agreement which you learned about.

A. The properties did belong to the Canadian River Gas Company after May 1, 1927. That is supported by various invoices and vouchers which appear in the company's records which charge Canadian River Gas Company for interest on moneys expended to buy those properties.

Now, if Canadian River Gas Company is charged with interest for moneys expended to acquire those properties, it should also be credited with the profits or revenues which are derived from those properties during this period. This revenue is the revenue after the operating expenses have been deducted and represents income from those properties.

Q. Is it not a fact, however, that the only thing Canadian River Gas Company was entitled to receive from Amarillo Oil Company for gas taken from these properties during the period which you have mentioned was the gas cost plus an apportionment of the interest on Canadian River Gas Company's outstanding indebtedness at that time?

A. The records of the company indicate that the only revenue received during this period by Canadian River Gas Company was the $81,250.

Q. And that is true because Amarillo Oil Company itself paid all the cost for producing the gas and operating the property from which it took gas, is that not correct?

A. That is correct, Amarillo Oil Company did do that.

Q. Canadian River Gas Company had no expense or outlay of funds in connection with those operations, did it?

A. No.

Q. As far as the Contracts are concerned, then, Canadian River Gas Company received from Amarillo Oil Company

every cent to which it was entitled for gas purchased during this period?

A. That is correct.

Q. All right, now, your theory is, as I take it, that certain properties were sold by Amarillo Oil Company to Canadian River Gas Company as of May 1, 1927 and that for a certain period thereafter they were operated by Amarillo Oil Company and Amarillo Oil Company made some profits from operating those properties so sold, which you believe should be credited back to this interest during construction account, although Canadian River Gas Company did not receive or was not entitled to receive such profits, is that correct?

A. I believe it should have been credited back.

Q. Now, the properties sold by Amarillo Oil Company to the Canadian River Gas Company consisted of gas leaseholds, gas rights, gas well and other property connected therewith, is that correct?

A. That is correct.

Q. By the way, let me ask you this: Is this adjustment entry made solely on your judgment?

A. Yes, this entry—Mr. Luttring prepared the supporting schedule found on Pages 49 and 50, and I applied that figure—the theory behind the entry is my judgment supported by our Uniform System of Accounts and other precedents in acounting.

Q. Do you know anything about the business and affairs and operations of the Amarillo Oil Company during this period?

A. I have never examined the records of the Amarillo Oil Company. My knowledge is only that which I acquired from the Canadian River Gas Company records and conversations with my associates.

Q. Do you know as a matter of fact that Amarillo Oil Company has certain contracts and did have certain contracts during this period with others covering the sale of gas?

A. I have heard that they did.

Q. And that the sales shown in the schedule, gas sales shown on Pages 49 and 50, were made pursuant to such contracts?

A. I assume that there were contracts involved. To my

knowledge these are the sales which were reported from—which was acquired from my conversation with Mr. Luttring and examination of the schedule.

Q. And if there were such contracts, then, of course, such contracts would be a part of the properties and assets of Amarillo Oil Company.

A. I assume that would be correct.

Q. And that the price of gas received by Amarillo Oil Company would be pursuant to such contracts?

A. That would appear reasonable, yes.

Q. Now let me ask you this question: Were these contracts sold by Amarillo Oil Company to Canadian River Gas Company.

A. Canadian River Gas Company's records don't reflect any such sale.

Q. Did you find any such contracts ever came into the possession of Canadian River Gas Company?

A. Not to my knowledge.

Q. Then when you say that you are taking out a profit made by Amarillo Oil Company during this period upon property sold to Canadian River Gas Company, you don't mean to say that the contracts upon which such sales were made were a part of those properties and assets sold?

A. No, I have made no reference to contracts.

Q. Well, let me state it the other way: The profits made here which you find by Amarillo Oil Company during this period required not only the properties and assets sold to Canadian River Gas Company but also its contracts with other parties, is that not correct?

A. Well, that could be true.

Q. Well, now, do you think it is fair to include such important properties as contracts and so forth which were not sold, in computing the profit to be applied in this situation?

A. I think it is fair to include the revenues derived from the properties which were sold to Canadian River Gas Company.

Q. All the properties—you mean all the properties? You mean it is fair to include all the properties?

A. The properties which were sold.

Q. You have told me the contracts were not sold.

A. No, I stated I have made no reference to contracts.

To my knowledge, such sale of contracts is not recorded on the Canadian River Gas Company's books.

Q. But it is apparent that the contracts which are properties and assets of Amarillo Oil Company had to be utilized in order to make a profit of $214,552.27 which you show?

A. If such contract were in existence, that would be true.

Q. To that extent you have utilized the property which was not sold?

A. To that extent.

Q. Now, there are other properties of Amarillo Oil Company involved in its operations at this time which you have excluded, to-wit: its gas line; is that not correct?

A. Well, I am not familiar with the Amarillo Oil Company properties. This statement was, as I said, compiled by Mr. Luttring who did examine the books and probably is familiar with the properties of the company. I am not.

Q. That's all right. Mr. Luttring apparently has prepared here nothing but a factual statement, and you have taken that statement and made certain determinations which seems to me required some pretty close reasoning and rather minute investigation on your part into the facts back of it. Otherwise, you would have had no basis upon which to bring the whole amount of this profit over here and deduct it from the interest during construction account of Canadian River Gas Company as you have done.

Well; what you have done, then, is merely to take Mr. Luttring's profit figure as shown on Page 50 of your Exhibit 146, in the amount of $214,552.27, and concluded that the full amount of that should be deducted from Canadian River Gas Company's interest during construction account.

A. I have done that. I was going to say that is the figure which represents the revenues derived from the properties which were sold to Canadian River Gas Company.

Q. Then we come right back again. It represents also revenues derived from the sale of gas by Amarillo Oil Company pursuant to its contracts existing at that time, is that correct?

A. Providing Amarillo Oil Company had those contracts.

Q. And such contracts were not sold to Canadian River Gas Company?

A. That is correct, of my own knowledge.

Q. And were among the properties and assets retained by Amarillo Oil Company, is that right?

A. I think that is right. I am not sure.

Q. Now, you have taken this sum which I mentioned a moment ago and included it in your Entry 248 without any particular examination or investigation of the facts underlying the Amarillo Oil Company's statement of net income for this period appearing on Pages 49 and 50?

A. I have reviewed the statement and noticed certain adjustments appear which eliminate other properties which Amarillo Oil Company did retain as reflected by this statement and concurred with Mr. Luttring.

Q. Well, what I am trying to get at is, to what extent have you investigated the facts?

A. The facts are, I believe, presented on Pages 49 and 50.

Q. Well, Mr. Teel, you are an accountant and you know as well as I do that an accountant doesn't accept figures without going back to check the facts, data and information underlying those figures before reaching a conclusion, isn't that correct?

A. I would accept Mr. Luttring's figures.

Q. That's what I want to come to. You have made no investigation of the facts underlying the figures shown on Page 49 and Page 50?

A. That is right.

Q. And have accepted Mr. Luttring's work in that connection?

A. That is correct.

Q. And you do not know whether or not the Amarillo Oil Company had any contracts covering the purchase and sale of gas at that time or not?

A. Not to my own personal knowledge, no.

Q. And you couldn't say for sure that this represents—that this profit on Page 50 of $214,552.27 is applicable only to the properties and assets sold to Canadian River Gas Company or whether it includes something else?

A. I believe it does—.

Q. No, that isn't my question. Do you know?

A. To my own personal knowledge, no, except that this work was prepared by my associate Mr. Luttring, and I have the utmost confidence in those figures.

Q. And if this profit which I have mentioned was paid

upon gas sales contracts which were not included among the properties and assets sold, then your answer would not be correct, would it?

A. I think it would. It still arises from gas which was produced on these properties.

Q. Why, if you are going that far, why do you stop with Amarillo Oil Company? Why don't you go on down the line and get the rest of the profits that might have been made from the sale of this gas?

A. Of course, the fact that Amarillo Oil Company is practically the parent company of Canadian River Gas Company has considerable bearing on this and probably did effect considerable influence in the original agreement concerning the price of this gas.

Q. You say Amarillo Oil Company is in practical effect the parent company of Canadian River Gas Company?

A. That is my understanding.

Q. Who owns all the stock of Amarillo Oil Company?

A. Southwestern Development Company.

Q. Who owns all the stock of Canadian River Gas Company?

A. Amarillo Oil Company.

Q. No, that is wrong.

Mr. March: You mean the Southwestern Development Company?

The Witness: Southwestern Development Company.

By Mr. Spencer:

Q. Then they are merely subsidiaries of the same parent company?

A. That is true.

Q. Did Amarillo Oil Company organize the Canadian River Gas Company?

A. That I am not sure of.

Q. Do you know whether Amarillo Oil Company had anything to do with the organization and incorporation of the Canadian River Gas Company?

A. That I am not sure of.

Q. In this statement on Pages 49 and 50 of Exhibit 146, the gas pipe line of Amarillo Oil Company from the field to the smelter near the city of Amarillo is excluded, is it not?

A. That I don't know.

Q. Well, doesn't it appear here?

A. Not that I know of. If it is, I am not able to identify it.

Q. You are not able to identify that? Well, turn to Page 49 of your exhibit and under the heading of "Adjustments applicable to Canadian River Gas Company," Column 7, go down to the first figure. Do you find an amount there of $53,825.22?

A. That is correct.

Q. And that is preceded by a No. 4 in parenthesis?

A. That is correct.

Q. And what does the figure No. 4 refer to?

A. No. 4 relates to a journal entry which was also prepared by Mr. Luttring, as were the three preceding it, and is located on Page 52.

Q. Now, what is the subject matter of that journal entry?

A. It is my understanding that this refers to natural gasoline extracted from gas at a gasoline plant there.

Q. I think you have a misapprehension there.

A. Yes, I think I do too.

Q. If you will look back on Page 49 under Column 6 you will find an amount of $14,936.60 which is applicable to gasoline sales, is that not correct?

A. That is correct. I was wrong before. That is right.

Q. Now turning back to Page 52, this paragraph numbered 4 in parenthesis says, does it not, it is an adjustment which is made for the purpose of taking out of the profits the revenue applicable to the investment of Amarillo Oil Company in a pipe line, isn't that plain?

A. That is correct.

Q. All right, then, the pipe line properties are out of this picture if the figure which he arrives at is correct.

A. That's right.

Q. Then he did take out the pipe line properties?

A. That is correct.

Q. And without going into too much detail, did he also take out some charges and income resulting from oil sales?

A. Yes, that is true.

Q. You would say that those were attempts to take out properties of Amarillo Oil Company which were not sold to Canadian River Gas Company?

A. That is correct.

Q. Now, I will ask you once more if Amarillo Oil Company had contracts covering the purchase and sale of gas which were utilized by it in making these profits and which were not sold to Canadian River Gas Company, should they not have been excluded, likewise?

A. The value of the contracts—

Q. The results of the contracts. That is what he is doing here with these other things.

A. Oh, I don't think so. I believe that the revenues from this property with such adjustments as would be arrived at which would correctly reflect the actual revenue from these properties should be credited to interest expense of Canadian River Gas Company.

Q. Then why not include the gas pipe line as well? They were utilized in the sale of this gas.

A. Well, the gas pipe line has in effect been included, because that entry on Page 52 reduces the amount of gross revenue by $53,825.22.

Q. Exactly. What he is attempting to do there is to eliminate any profit that might be applicable to the pipe line.

A. Eliminate that from the net earnings as affected by the statement.

Q. Yes, that's right. Well, then, shall we leave the record here that based upon your experience and knowledge as an accountant, Canadian River Gas Company was entitled to all of the benefits of any contracts that Amarillo Oil Company may have had covering the purchase and sale of gas, notwithstanding the fact that they were not among the assets and properties sold to Canadian River Gas Company. Shall we leave it there?

A. I believe that Canadian River Gas Company should have received a credit for the revenues received from these properties which were sold to Canadian River Gas Company.

Q. And you think that there should have been included among the properties the benefits of any contracts that Amarillo Oil Company may have had which were not to become the property of Canadian River Gas Company?

A. I think that the revenues should have consisted of the revenues from the sale of this gas from these properties which were sold to Canadian River Gas Company.

Q. The profit figure shown on Page 50 of $214,552.27

makes no allowance for a return on the investment of Amarillo Oil Company?

A. On the investment of Amarillo Oil Company, the return on the investment of the company is reflected in the revenues which are shown in Column 5 of the schedule appearing on Page 49 during this period.

Q. I think that is correct, but when you arrive at the total figure in Column 9, there is no adjustment there to allow Amarillo Oil Company any return or interest on its investment at all, is there?

A. I see no allowance made for that type of item in this statement.

Q. Entry No. 4 on Page 52, does, however, allow interest, rate of return, or whatever you may want to call it, on the pipe line?

A. That is correct.

Mr. Spencer: Just a minute, Mr. Examiner. I think maybe we ought to switch to Mr. Luttring at this point. I wish to ask him some questions about these schedules on Page 49 and Page 50.

Mr. Luttring further testified: (Vol. XLII, pp. 5700-5744.)

Q. Mr. Luttring, you have heard Mr. Teel's testimony just preceding with respect to Entry No. 248 and the supporting schedules attached thereto on Pages 49 and 50 of Exhibit 146?

A. I have.

Q. Did you prepare these schedules on Pages 49 and 50?

A. I did. May I state something here, please?

Q. Go right ahead.

A. The books of Canadian River Gas Company recognized income during the period May 1, 1927 to June 1, 1928 on what was considered an unorthodox method. The amount recognized by them was—

Mr. Spencer: Just a minute.

Mr. Lange: Can't he complete his explanation?

Mr. Spencer: Why, I don't know whether he is going to make a speech or what.

Mr. Lange: He is explaining some—

Mr. Spencer: I want to know—

Mr. Lange: It is relevant to a portion of that exhibit.

Mr. Spencer: Well, what portion? Let's break it down and find out just exactly what he is going to talk about and then I can follow him.

Mr. Lange: What is it relevant to?

The Witness: Nothing but what is in here. I just want to get you straight on this thing.

The Trial Examiner: Well, perhaps if Mr. Spencer objects to the witness proceeding, perhaps the best method would be to have Mr. Spencer proceed with the questions and let—

Mr. Spencer: Let's leave it this way, Mr. Luttring, and I'll give you a full opportunity at some point here to put in any explanation you want. Let's start off by finding out what you did in connection with these particular schedules and the purpose of it.

Mr. Lange: Of course, Mr. Examiner, if that explanation that he wants to make is relevant to explain that question that Mr. Spencer asked, I think it should be permitted to be made.

The Trial Examiner: The witness will be allowed, of course, to explain any answer that he desires to make.

Mr. Lange: That's what I understood the witness' purpose was, to be able to explain the nature of his answer.

Mr. Spencer: He hadn't made any answer yet. I hadn't even asked him a question.

Q. Well, these schedules on Pages 49 and 50 were prepared by you?

A. Yes, sir.

Q. The basic figures, I take it, you obtained from the books of the Canadian River Gas Company—the Amarillo Oil Company?

A. From the financial records of the Amarillo Oil Company.

Q. And are all the figures in Columns 2, 3 and 4 as per books?

A. They are.

Q. Is the description under Column 1 of the company's description for the items?

A. I am quite certain that I followed the accounts literally.

Q. That is, you haven't involved here, as far as you can recall, any reclassification of accounts?

A. No, sir. It is my practice to try to follow the accounts as they are shown by the company's records.

Q. All right. Why did you prepare this schedule?

A. Well, on the books of Canadian River Gas Company they reflected an amount of $81,250 as being the revenue during the period May 1, 1927 to June 1, 1928. The purpose of setting up the schedules was more to show that more accurate figures could have been obtained if they had actually been compiled by someone. Now, I don't intend to convey that these figures are absolutely right from the standpoint of meeting the provisions of this contract.

Q. Which contract, Mr. Luttring? Do you mean the agreement of January 3rd, 1928 between Amarillo Oil Company and Canadian River Gas Company?

A. I think that is mentioned in the journal entry, yes.

Q. Let's go to that for just a moment?

A. May I say this, that I heard the discussion. The contract with Amarillo Oil Company—

Q. What discussions are you referring to?

A. About the contracts for the sale of gas which Amarillo Oil Company owned.

Q. Where and between whom?

A. Between the smelter plant—

Q. No, I mean these discussions. I want to identify the discussions you heard.

A. Well, it was regarding the contracts for the sale of gas that the Amarillo Oil Company had.

Q. Do you mean discussions between Mr. Teel and me?

A. That is correct.

Mr. Lange: You are referring to the testimony just had by Mr. Teel and—

The Witness: I wish to say here that the contracts that they had before the sale, they also had after the sale.

Mr. Spencer: Yes, that's right.

Q. What contracts are you referring to, the contracts of Amarillo Oil Company covering its sales of gas?

A. That is correct.

Q. They had them before and they had them after the transfer of these properties to Canadian River Gas Company? In other words, they weren't included.

A. That is right.

Q. I think that is correct, and they did have contracts?

A. Yes.

Q. Long-term contracts?

A. Well, I don't know the length of them.

Q. Just a few more general questions.

Did not the agreement dated April 5th, 1927 between Southwestern Development Company and Standard Oil Company of New Jersey and Cities Service Company make some provision for the basis upon which Amarillo Oil Company should receive gas up until such time as Colorado Interstate Gas Company commenced to take deliveries?

A. Yes, and I think that that is the thing that is not reflected in this statement.

Q. And that was not carried out precisely as it was provided in that contract?

A. That is correct.

Q. In other words, it provided there that the Amarillo Oil Company should pay one-fourth—was it one-fourth?

A. I don't recall the figures.

Q. I think it was one-fourth of the interest on the indebtedness of Canadian River Gas Company. The final settlement was made on the basis of one-eighth.

A. Yes.

Q. Which—

A. Based on the calculation which is shown on—

Q. I think you have explained that. It is on Page 48.

A. That is right.

Q. And that interest was paid by Amarillo Oil Company to Canadian River Gas Company.

A. Yes, that is correct.

Q. And represents a part of Amarillo Oil Company's cost of gas during that period?

A. Yes.

Q. And all of the other costs involved in producing and gathering the gas taken by Amarillo Oil Company during this period were assumed and paid by it?

A. Will you read that to me, please?

(The question referred to was read by the reporter, as set forth above.)

The Witness: You mean to say that Canadian River Gas Company assumed all those?

By Mr. Spencer:

Q. Assumed and paid by it, Amarillo Oil Company.

A. Yes, Amarillo Oil Company did pay them, yes.

Q. That is to say, Canadian River Gas Company did not pay any portion of the operating cost for producing this gas during the construction period which Amarillo Oil Company took?

A. Will your read that, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: That is correct. The costs were not reflected on Canadian River Gas Company's books.

By Mr. Spencer:

Q. Then Amarillo Oil Company purchased and took its gas during this period substantially in accordance with what the parties intended by their agreements, is that not correct?

A. Yes.

Q. Now, going back to Page 49 and 50 of Exhibit 146 which you have prepared, I believe you testified that the figures shown in Columns 2, 3 and 4 were taken from the books of the company?

A. Financial reports and books of the company.

Q. What do you mean when you say the financial reports? What do you mean by that?

A. They put out a monthly financial report which I used as my starting point which was compared with the books.

Q. Did you make an audit to tie those figures back into the books?

A. I compared them with the books to see that the bal-

ances as represented in the statement were those also shown on the books.

Q. That is to say that any figures you obtained out of the financial records, you checked them with the books?

A. That is correct. However, I did not verify the accounts: that is, the contents of the accounts.

Q. You wouldn't say that this is a verified audit of the books and records of Amarillo Oil Company for the period?

A. That is not the intent I want to convey.

Q. Now, when we get over to Column 5, you have a heading there, "Applicable to Amarillo Oil Company," and over Columns 6, 7 and 8 and 9 you have a title, "Applicable to Canadian River Gas Company:" I assume that those five columns represent a split in adjustments of Column 4, is that right?

A. That is correct. It was made from the best available information that I could get.

Q. Now, what do you mean by the title "Applicable to Amarillo Oil Company"?

A. Well, supposing we put it the other way. We were chiefly interested in determining the amount of revenue and expenses that were applicable to the property which Canadian River Gas Company acquired in the purchase as of May 1st, 1927. The balance of it we considered as being applicable to Amarillo Oil Company.

Q. What were the properties and assets sold to Canadian River Gas Company? What did they consist of generally?

A. Everything that Amarillo Oil Company had with the exception of a pipe line and its gas contracts.

Q. Well, you want to include oil rights?

A. And oil rights.

Q. It might be a little more accurate to say, would it not, that Amarillo Oil Company sold to Canadian River Gas Company all of its gas rights and gas wells and other gas properties and retained everything else?

A. All right.

Q. Including its contracts for the sale of gas to its customers and its gas pipe line and its oil rights and oil wells, and so forth?

A. That is as I understand it.

Q. All right, now, I will try to move along down this

schedule here, but there are some items concerning which I need information.

Column 5, the first item under "Applicable to Amarillo Oil Company" is oil sales. That is under the heading "Operating Revenues." You take that out because—

A. Because the oil operations—

Q. It is income not derived—

A. Gas—

Q. —from properties sold to Canadian River Gas Company?

A. That is correct.

Q. The next item under "Operatng Revenues" is gas sales with the royalties deducted, and there you say that the full amount is applicable to Canadian River Gas Company, the amount being $478,232.11.

A. With the exception—

Q. Of the adjustment which follows?

A. That is correct.

Q. Now, is the amount $478,232.11 a gross revenue derived by Amarillo Oil Company from gas sales during this period?

A. That is correct.

Q. Those sales are made pursuant to certain contracts which Amarillo Oil Company had at that time?

A. That is right.

Q. Are you familiar with those contracts, Mr. Luttring, generally?

A. No, I am not.

Q. Have you ever seen the contracts?

A. No, I have not.

Q. Do you know the price at which the gas sold?

A. Yes.

Q. Yes.

A. Yes, I do.

Q. You know that?

A. Yes.

Q. I mean at this time.

A. Yes, I can state it.

Q. Well, state it as you understand it, then we'll see how close you come.

A. Well, the gas sold to Panhandle Pipe Line Company at 8 cents a thousand cubic feet.

Q. Where?

A. By that you mean the delivery point?

Q. Yes, the delivery point.

A. Well, it is some time after it leaves the gasoline plant. I don't just exactly know the point.

Q. The gasoline plant is located where?

A. About two miles outside of town, outside the town of Amarillo, Texas.

Q. It went through the pipe line of what company?

A. Panhandle Pipe Line Company.

Q. Well, the delivery point would hardly be at a point near the city of Amarillo, would it, after it had passed through the pipe line of the purchaser?

A. Well, hardly. I know the Panhandle Pipe Line Company and Amarillo Oil Company both have pipe line. Now, I don't know—it is somewheres near the city—

Q. Well, isn't it correct that during this period the sales made by Amarillo Oil Company to Panhandle Pipe Line Company pursuant to the contract between the parties were made at the well?

A. I think so.

Q. In other words, Panhandle Pipe Line—

A. Well, the important factor is that Amarillo Oil Company did receive eight cents per thousand cubic feet.

Q. I think that is right, but I still want to know where they received it, and I don't want to put words in your mouth, but I think the facts as you know them were that—

A. It would take me some time to look that up.

Q. Well, let's let that go.

Now, Amarillo Oil Company also sold gas to the smelter near the city of Amarillo, is that not correct?

A. That is right.

Q. And where were the deliveries made under that contract?

A. I think they were made right close to the smelter. I believe that gas comes from the Cliffside Structure to that helium plant.

Q. No—was that true at the time or during the period that you have covered by these statements on Pages 49 and 50?

A. I think so.

Q. You mean that during this period covered by your statements on 49 and 50 that helium residue gas or otherwise was being sold by Amarillo Oil Company to the smelter; if so, you will have some adjustment to make here that you haven't made?

A. Just a minute. I'll get the history out.

Q. Maybe it would simplify it if you had in your papers somewhere the first date on which the gas sales were made to the smelter by Amarillo Oil Company from the Cliffside Structure.

A. Well, I think I was wrong about that gas going to the helium plant, because that wasn't in operation in this period.

Q. The helium plant wasn't?

A. That is my understanding, yes. It may have been in operation, but Amarillo Oil Company was not receiving any gas.

Q. A day or so ago you testified, Mr. Luttring, that the production of natural gas from the Bivins A well and Bush A-1 well on the Cliffside Structure commenced December, 1926, is that correct as you recall it?

A. Yes. Will you give me the names of those wells again?

Q. The Bivins A-1 and the Bush A-1.

A. Now, the gas in these wells was sold to a party by the name of J. H. Charles and Gibson Oil Corporation—were the operations removed from the town of Amarillo.

Q. That would not be the smelter. Can you follow on down there and see when gas from those wells was sold to the smelter?

A. Do you want the beginning date?

Q. Yes, from the Cliffside Structure.

A. Well, I don't—

Q. I thought maybe you had a continuous record there with reference to sales.

A. I only go to May 31st, 1928.

Q. Well, there were no sales from the Cliffside wells to the smelter as shown by your records up to May 1928?

A. I don't see any here.

Q. All right, then, would you answer me again as to what other customer Amarillo Oil Company sold gas during this period?

A. The principal customers were the U. S. Zinc Company and Panhandle Pipe Line Company.

Q. And that is—

A. That is miscellaneous sales.

Q. Along the pipe line—miscellaneous sales on the pipe line?

A. Yes. They are inconsequential compared to the two customers.

Q. The sales made to the smelter were made where, or deliveries made to the smelter were made where? I believe you have already testified to that—near the City of Amarillo.

A. Yes.

Q. The gas was transported through the pipe line of Amarillo Oil Company?

A. Yes, sir.

Q. The United States Zinc Company operated the zinc smelter near the city of Amarillo?

A. That is correct.

Q. Do you consider that to be an industrial sale?

A. I would.

Q. Now, what was the price that Amarillo Oil Company received for the gas sold to the smelter under its contract with the smelter at that time?

A. I can't give you the exact price. I have the Mcf. that was sold and the dollars received for it.

Q. You can't give me the price per Mcf.

A. No, sir.

Q. Do you know what the basis of measurement was under the contract?

A Delivered at wells under 15.5-pound absolute pressure, and there was a correction in the pressure base of 4.3 per cent.

Q. You are giving me the pressure base at the wells. The deliveries were made near the smelter, were they not?

A. Well, this information all comes from the invoices, that I am reading, and there is a further correction for Btu. correction. That is the only other one I see.

Q. Your records don't indicate the measurement base for deliveries at the meter located near the smelter?

A. Only so far as I have stated.

Q. Do you know whether or not these two contracts which you have mentioned, to-wit: the contract with Pan-

handle Pipe Line Company and the contract with the smelter are still in existence with certain amendments thereto?

A. Well, I know the plants are there, but I don't know if the contracts are in effect. I know they are getting gas.

Q. You know the smelter is still receiving gas and the—

A. Yes.

Q. —and the Panhandle Pipe Line Company is still purchasing gas from the Amarillo Oil Company?

A. Yes, sir.

Q. Would you consider the two contracts to be assets of Amarillo Oil Company?

A. Well, I consider them belonging to Amarillo Oil Company.

Q. Would you consider them property rights belonging to Amarillo Oil Company?

A. Yes, sir.

Q. Well, I believe you have heretofore testified that the contracts mentioned, the property rights therein, were not included in the sale of properties and assets to Canadian River Gas Company?

A. Yes—will you read that?

(The question referred to was read by the reporter, as set forth above.)

The Witness: That is correct.

By Mr. Spencer:

Q. Now, Amarillo Oil Company would never have realized the sum of $478,232.11 from the sale of gas during this period except by the use of the contracts, is that correct?

A. That is correct.

Q. Had Amarillo Oil Company not had those contracts, neither you nor I could say what their revenue would have been from the sale of gas, is that correct?

A. That is correct.

Q. So to the extent of the contracts, at least, you have utilized property or property rights of Amarillo Oil Company which were not sold to Canadian River Gas Company in arriving at your figure of adjusted net income on Page 50 of $214,552.27?

A. That is correct.

Q. Now, tell me about this adjustment in Column 7 in

the amount of $53,825.22 which you have charged against gas sales for this period, as I take it.

A. Well, in Journal Entry No. 4 on Page 52—

Q. Yes.

A. —our entry there is for the purpose of allowing Amarillo Oil Company a return on their investment in the pipe line during the so-called development period.

Q. I assume your theory is that since the pipe line was not among the properties and assets sold to Canadian River Gas Company, some allowance should be made for the utilization of that particular property before arriving at a profit that was applicable to Canadian River Gas Company?

A. That is correct.

Q. So you took the well—first, you allowed the pipe line expense as it appeared on the books?

A. Yes, and then I added six per cent interest—

Q. Well, next you allow the depreciation as shown on by the books?

A. Yes, that is correct.

Q. Did you make these computations or splits on depreciation interest for the eight months for 1927 and five months of 1928?

A. Yes, sir.

Q. I presume you divided the total figure by the number of months involved?

A. That is correct.

Q. That is all the expense that is applicable to the pipe line that appears on the books?

A. Of Amarillo Oil Company?

Q. Of Amarillo Oil Company.

A. As I classified it.

Q. As you classified the expense?

A. Yes.

Q. Did the Amarillo Oil Company show pipe line earnings on its books?

A. No, it did not.

Q. Do you know how much the pipe line earned during that period?

A. No, I do not.

Q. Do you know that the expense of Amarillo Oil Company during this period applicable to the pipe line were

not in excess of or less than the amount that you have shown on Entry No. 4 on Page 52?

A. No, sir, I do not. I merely did it according to the best judgment that I could.

Q. Those are judgment figures?

A. That is correct.

Q. I assume we couldn't find any particular provision in the Code that would specify just how this was to be done?

A. No, you wouldn't.

Q. Could you find any?

A. No, you wouldn't. I was asked to get certain figures, and this is what I arrived at.

Q. You did the best you could?

A. Yes, sir.

Q. All right, now, the last item to make up a total of $53,825.22, involved in Entry 4 on Page 52 is six per cent on average investment of $383,728 which amounts to $23,023.68. Now, first tell me about the $383,728.

A. That represents the investment which Amarillo Oil Company had in its pipe line.

Q. As shown by its books?

A. Which pipe line was not transferred to Canadian River Gas Company.

Q. As shown by its books?

A. As shown by its books.

Q. And you have taken the average investment of Amarillo Oil Company in pipe line facilities for this period?

A. That is correct. There was very little change in the investment account.

Q. No substantial change?

A. No, sir.

Q. Now, do you know that that figure represents the original cost of the pipe line?

A. It is very close to it.

Q. Did you check that?

A. I was confronted with it in my examination of the records of Amarillo Oil Company. It appeared in the investment account at one time. I think now it is in a separate investment account.

Q. Would you say that you went far enough with your investigation in your audit to determine that it is approximately the original cost of this pipe line to Amarillo Oil Company?

A. I think I could safely say that it is very close to it.

Q. Did it represent the fair value of the pipe line during this period that you have estimated here?

A. Well, I don't like the use of the words "fair value."

Q. Well, we'll use some other words, then, and we'll come back to it.

Does it represent the fair market value of the pipe line in your opinion during the time covered by your schedules on Pages 49 and 50?

A. I don't know what market values were at that time.

Q. The answer is you don't know, isn't it, Mr. Luttring, to that question?

A. It does represent very close to the original cost.

Q. All right, you do not know that the original cost and the market value which Amarillo Oil Company might have received on the sale of the pipe line properties were identical at that time?

A. No, sir, I do not.

Q. You don't know what the market value of the property of the pipe line property was, then?

A. I do not know what the market value was.

Q. One other question: Do you know what the reproduction cost of the pipe line property would have been at that time?

A. No, sir, I do not.

Q. All you have, then, is a cost figure appearing on the books of the company which you believe rather closely identifies the original cost of the pipe line?

A. That is correct.

Mr. Spencer: Perhaps we might take a recess.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Spencer:

Q. Now, referring again, Mr. Luttring, to your Entry 4 on Page 52 of Exhibit 146, you have considered that Amarillo Oil Company was entitled to an allowance for interest or rate of return or at least some compensation on its pipe

line investment in order to arrive at a profit figure which you considered applicable to Canadian River Gas Company in this transaction?

A. That is correct. Now, in addition to the income which I allowed on that investment in Journal Entry No. 4, Amarillo Oil Company also received $79,000 plus of interest from Canadian River Gas Company during that same period.

Q. That is interest on the money that Amarillo Oil Company employed in drilling wells and doing construction work for Canadian River Gas Company during that period?

A. Well, it is not entirely clear whether it is all applicable to that, whether some of it is due to not receiving this payment of five million dollars on the exact date of the contract.

Q. A portion of it might have been paid for delay in paying the purchase price; that is, delay subsequent to May 1, 1927?

A. That is correct.

Q. Well, in any event, any interest received by Amarillo Oil Company had no relation to the pipe line item we are talking about here?

A. No, sir.

Q. All right, now, after you had determined that some allowances would be made in the form of interest or rate of return for pipe line investment, you concluded that six per cent per annum was the appropriate figure, is that correct?

A. No, I made it low instead of too high, I suppose.

Q. In any event, you arrived at six per cent per annum as the figure to be used?

A. That is correct.

Q. Now, tell me why and how you arrived at that particular per cent.

A. I didn't arrive at it, I just took it.

Q. Well, you didn't take it out of the air or out of the bag of figures. You had some reason for it, I am sure.

A. None other than I felt that that would be a fair rate of return.

Q. And why did you so feel?

A. Based on my knowledge of interest rates and their relation to investments.

Q. You are trying to arrive here, not at an interest rate, but a fair rate of return on the pipe line property which is not involved in this transaction, is that not correct?

A. No, I was merely arriving at a figure which would give you a fair income on that piece of property.

Q. That income would represent return on that property, would it not?

A. Represent which?

Q. Return.

A. Yes.

Q. And you wanted the return to be fair, did you not?

A. Yes, sir.

Q. So when we put the two together, we find you were looking for fair rate of return, were you not?

A. Well, the implication is there. However, in order to determine it, I did use a method that is used in determining fair rate of return. Again it is merely a judgment on my part.

Q. Well, then, let's turn it around. I believe you heretofore testified that you have never sat as a commissioner or other official in a rate proceeding?

A. That is correct.

Q. And you do not consider yourself to be a rate expert?

Mr. Lange: Well, now, I think—I would like to know what counsel means by a rate expert.

Mr. Spencer: I mean a man who by experience, knowledge and qualification is eligible to determine what is a fair rate of return for a specific piece of property in a given situation. Is that express enough?

Mr. Lange: Well, if that is what counsel has in mind.

By Mr. Spencer:

Q. Do you consider yourself to be such a person as I have described?

A. No, sir.

Q. Then as a matter of fact you do not know whether or not six per cent represented a fair rate of return to Amarillo Oil Company on its pipe line property from the standpoint of a rate proceeding at that time?

A. I have never taken that stand on this particular point.

Q. Well, the answer is no. You don't know whether it is that kind of an allowance?

A. I don't know.

Q. But you thought it over and considered that some

allowance should be made and finally selected six per cent as the amount?

A. That is correct.

Q. Now, the pipe line was one of the remaining assets of Amarillo Oil Company after it transferred its gas leaseholds and wells and rights and other properties to Canadian River Gas Company?

A. That was the principal asset.

Q. Canadian River Gas Company also had other remaining assets including its gas sales contracts—I mean Amarillo Oil Company?

A. That is correct.

Q. Did you attempt to place any value on its other assets of Amarillo Oil Company?

A. No, sir.

Q. And there is no allowance as interest or rate of return or otherwise for the other properties that were employed by Amarillo Oil Company in carrying on its business and affairs during the period covered by your schedules?

Mr. Lange: What properties, Mr. Spencer?

Mr. Spencer: Read the question, please.

Mr. Lange: You said other properties.

(The question referred to was read by the reporter, as set forth above.)

By Mr. Spencer:

Q. I mean properties and assets including its contracts remaining in the hands of Amarillo Oil Company after it had transferred its gas properties to the Canadian River Gas Company.

A. No, sir, they were not.

Q. Do you consider it appropriate to inquire into and determine the fair value of the properties that I have just described?

A. At no time have I considered fair value. I have been interested only in original cost throughout all of my studies.

Q. You could have done so under the Code, could you not?

A. No, sir.

Q. Now, returning to Page 49, this item of $53,825.22 which is covered by Entry No. 4 on Page 52 is applied as a

deduction to gas sales in so far as they are applicable to Canadian River Gas Company?

A. That is correct.

Q. Now, doesn't that leave this entry $53,825.22 as an open-end entry?

A. It is open in so far as it has not been added to the column headed "Applicable to Amarillo Oil Company."

Q. In other words, it is an open entry because you haven't applied it back into the income of Amarillo Oil Company at any point?

A. Well, I have it in my working papers, but it has not been done so here. Now, if you wish for your own purpose, you can merely add the figure to the column headed "Applicable to Amarillo Oil Company."

Q. Don't you think it would make this statement more complete and perhaps a little better accounting to tie it back in?

A. Well, after all, the primary purpose of the statement is to find out the portions that are applicable to Canadian River Gas Company.

Q. In other words, as you have computed it, Amarillo Oil Company ended up with a deficit of $63,087.41 which is shown opposite the net income figure at the bottom of the schedule on Page 50, whereas if this had been a credit it would have—

A. Reduced that deficit by the amount of $53,825.22.

Q. All right, now, let's go over to the next item, gasoline sales, $14,936.60. You have concluded that that is applicable to Canadian River Gas Company, is that correct?

A. That is correct.

Q. Because it was derived from properties and assets which were sold by Amarillo Oil Company to Canadian River Gas Company, is that correct?

A. Because it is related to the gasoline that is included in your—because it is related to the gas sales which are included in this schedule.

Q. Well, it must be derived from the operation of the properties that were sold to Canadian River Gas Company in order to comply with the methods you had in mind here in computing the property applicable to Canadian River Gas Company, is that not so?

A. That is so.

Q. Now, is it not a fact that the revenues received by

Amarillo Oil Company for gasoline sales had nothing whatsoever to do with the properties and assets sold to Canadian River Gas Company and that Amarillo Oil Company is today and has ever since July 1, 1928 received and retained these same gasoline sales proceeds?

A. That is correct.

Q. Well, then, under what theory, please tell me, could you have concluded that for this particular time it was attached to some right or some property which was conveyed to Canadian River Gas Company.

A. All I know is that the gasoline sales there are related to the gas revenues.

Q. Well, now, tell me, how do these gasoline sales revenues arise?

A. They arise through extracting the gasoline from gas.

Q. Where?

A. In this instance, about two miles outside the city of Amarillo, Texas.

Q. By whom?

A. The Cannon Gasoline Company.

Q. Pursuant to a contract between the parties?

A. I think so.

Q. Which has been in existence for a long time and is still in existence?

A. Yes, sir.

Q. Well, isn't it a fact that this gasoline extraction operation is something that is entirely divorced from field operations or any properties or assets of the Amarillo Oil Company in the Panhandle field?

A. In this instance I think that is true.

Q. Isn't that an operation that is performed after the sale of the gas in the field?

A. I am not sure on that point.

Q. All right, now, on Page 49, Mr. Luttring, down about the middle of the schedule you have an item there which is described as "Depletion—Gas Department." You show a total amount of depletion as reflected on the books of the company during this period of $52,213.20, all of which you consider is applicable to Canadian River Gas Company in Column 6, and then you have an adjustment against that amount in Column 8 of $34,468.62. Will you please explain what you did there and why you did it?

A. If you will look in Column No. 2—

Q. What page, please?

A. Page 49—you will note depletion in the amount of $21,167.30. This amount of depletion was on the books of Amarillo Oil Company during the period January 1 to May 31, 1928, but subsequent to that date it was reversed. The same amount was taken up on the books of Canadian River Gas Company for that period. Therefore, it did not belong in this statement.

Q. Oh, you mean the $21,167.30?

A. Yes, sir.

Q. Does that belong in this statement?

A. It does not belong there because Canadian River Gas Company for the year 1928 took up a full year's depletion.

Q. The amount of your adjustment is $34,468.32?

A. The rest of the explanation is on Page 51 of the journal entry.

Q. Page 51?

A. Yes, sir.

Q. All right, will you explain that, please? This Entry No. 1 on Page 51 also includes the $21,167.30 which you referred to?

A. That is correct.

Q. Now, explain the whole entry.

A. In addition to $21,167.30, the development expense for the year 1927 was prorated for the period from May to December because only the period from May 1st, 1927 to December 31, 1927 is included in this statement. The amount of depletion expense determined on this proration is $17,-744.58.

Q. Are you finished?

A. No, just a minute. That figure was based on adjusted figures which the company made subsequent to December 31, 1927.

Q. What company?

A. The Canadian River Gas Company, and it was worked back into Amarillo Oil Company in a subsequent transaction. The amount the company recorded on the books for that same period was $31,045.90, resulting in a difference of $13,301.32. The excess there, plus the amount of $21,167.30, gives you the result of this transaction. I gave Mr. Cartwright some figures last night which will agree with those figures.

Q. Well, we aren't able exactly to follow your entries,

but I don't know that it is necessary to go into any great detail. I want to ask you about this, however: You have prorated the depletion amounts shown on the books of the company in order to arrive at a depletion figure for the purposes of your study on Pages 49 and 50?

A. That is right, which is consistent with the records.

Q. You have divided the total depletion by the number of months involved?

A. That is correct.

Q. To determine the monthly rate of depletion. Now, the only question I want to ask you about that is, do you consider it a good accounting practice for the purpose of determining depletion to divide by the months in order to arrive at the correct amount of depletion for the period that you want?

A. Ordinarily, I wouldn't do it. I would base it on production, but this being a period that occurred some thirteen years ago, it would have occasioned a great deal of work to get that information.

Q. It would be much preferable from the standpoint of accounting practice to base depletion upon actual production rather than to try to get arithmetical averages?

A. That is correct.

Q. Neither you nor I could say that the figures that you have arrived at here representing depletion would conform to the actual depletion of these properties during this period; that is to say, the actual amount of production?

A. Only if the production had been equal in each month.

Q. Which we know is not true?

A. That is correct.

Q. Now, drop down to the next item on Page 49 which is described as "Depreciation—Gas Department." You show a total depreciation charge of $52,824.63 for this period, all of which you consider as being applicable to Canadian River Gas Company in Column 6, and then you follow under Column 8 with an adjustment of $33,730.25, arriving at an adjusted figure in Column 9 of $19,094.38. Will you describe that briefly?

A. The explanation I gave for depletion is exactly the same for depreciation.

Q. This has reference also to your Entry No. 2 on Page 51?

A. That is correct.

Q. And there you have the details as to the adjustments which you made in Column 8 which I just referred to?

A. That is correct.

Q. And again you had to do some computing and some averaging in order to arrive at the figures you needed for this particular period?

A. That is correct.

Q. There again we aren't able to follow your figures, but I don't think that it requires any particular examination.

I notice in Entry No. 2 on Page 51 you have there this statement: "The year 1927 depreciation based on basis accepted by Revenue Agent," $28,641.58. In that instance, did you vary from what the books of the company showed?

A. No, sir. It is a rather involved study in your depreciation account, but it actually represents the figures that are on Canadian River Gas Company's books and it has been worked back into Amarillo Oil Company. Now, there are entries between the companies recording that whole transaction.

Q. Well, that is what is confusing me, Mr. Luttring. In order to arrive at a profit for Amarillo Oil Company which it made in operating the properties, it seems that we go from Amarillo Oil Company—

A. That's a different situation—

Q. Let me finish, please.

A. Okay.

Q. —from Amarillo Oil Company books, and then we go over to Canadian River Gas Company's books and we bring back from here and we take up from there, and finally we arrive at a figure which is applicable to Amarillo Oil Company's operations during an interim period. That is not a figure that appears anywhere on the books of Amarillo Oil Company?

A. Yes it is.

Q. This one—$28,641.58?

A. Yes, sir. You probably won't find it as such. It is an adjusting entry of the depreciation.

Q. Well, I won't find it as such—again, in order to arrive at that figure, you have had to do some computing?

A. To the extent of the proration which I show in that explanation.

Q. All right, now, going down on your schedule to Page

49, we come to the item "Taxes" under the heading "Operating Revenue Deductions" which you say is other than income taxes. Are those ad valorem and other property taxes paid by Amarillo Oil Company during this period?

A. Yes, they are.

Q. I assume you had to do some prorating there in order to arrive at a tax for this particular period?

A. No. The tax bill, according to the explanation of the journal entry for the year 1929, which was the following year, was in the amount of $3,287.51; so I picked a figure that is close to it—

Q. You used a figure which seemed reasonable in the light of a previous figure?

A. Well, a subsequent figure.

Q. A subsequent figure?

A. Yes, after the bulk of the property had been transferred.

Q. All right. Do you think that reasonably reflects the ad valorem and other taxes for this period?

A. That is correct.

Q. Now, did Amarillo Oil Company pay an income tax during this period?

A. I didn't find any so recorded.

Q. Did Amarillo Oil Company make profits during this period?

A. Well, I think this clearly indicates it, doesn't it?

Q. I am not sure whether Amarillo Oil Company as such made any or not. I see you indicate profits, but that's not convincing to me that the profits were in this amount. I will ask you again—

A. The figures start off with per books.

Q. Well, did Amarillo Oil Company have profits during this period?

A. Yes.

Q. And they would be subject to income tax, would they not?

A. That is correct.

Q. You have included no item in here for income taxes that would have to have been paid or were paid by Amarillo Oil Company on such profits.

A. There are none so shown in this report. I might say at that time Amarillo Oil Company, I believe, was reporting on a consolidated basis.

Q. Oh, would you not think that some allowance should be made for income taxes in this study of yours?

A. Well, if they paid the tax, where is it?

Q. I am asking you.

A. I didn't find any on the records.

Q. You found no income tax that they had paid?

A. No, sir.

Q. As a matter of fact, Amarillo Oil Company made no return, did it, per se?

A. I think they had to make some kind of a return in both—

Q. I am not trying to confuse you. The return was made by Southwestern Development Company, the parent, for itself and all of its subsidiaries, did it not?

A. You mean, the tax return was in Southwestern Development Company's office?

Q. Yes.

A. That is correct.

Q. And made by the parent company for itself and its subsidiaries on a consolidated basis as required at that time?

A. That is correct.

Q. Do you know what tax Southwestern Development Company paid during this period, applicable to the profits accruing to Amarillo Oil Company as you have shown them here?

A. No, sir, we tried to get those statements here but they were not volunteered.

Q. You don't know that?

A. No, sir.

Q. Now you come down to a net—your total income on Page 49, and then you have a heading there entitled "Other Income" which I assume is to be distinguished from what you consider to be utility income, is that correct?

A. Yes.

Q. And all of the items listed under the heading "Other Income" you consider as being applicable to Amarillo Oil Company only except an item there entitled "Discount on Purchases"?

A. That is correct.

Q. Which you show as being applicable to Canadian River Gas Company, and the amount of it is in Column 6—$5,304.50, I think I know what those discounts were, but will you tell me why they are included at this point?

A. The discounts I considered represented amounts received on purchases which were made for the account of Canadian River Gas Company.

Q. By—

A. By Amarillo Oil Company.

Q. Do you mean to say that the Amarillo Oil Company received discounts on purchases for the account of Canadian River Gas Company which were not passed along to Canadian River Gas Company?

A. That is the idea I want to convey.

Q. In other words, Amarillo Oil Company in this instance is holding out on Canadian River Gas Company?

A. To that extent, yes.

Q. Are you sure of that?

A. I am quite sure.

Q. And do you consider that to be a very bad practice?

A. I didn't mention anything about practice on it. I merely threw it over there under that column. I didn't do it from any practice standpoint.

Q. Are you sure that the discounts involved only related to purchases that were made for the account of Canadian River Gas Company and not for some other company?

A. I didn't examine every invoice, but we do know that the majority of purchases made during that period was for the account of Canadian River Gas Company.

Q. Then your entry is based upon the conclusion that most of the purchases made by Amarillo Oil Company at that time were for the account of Canadian River Gas Company; therefore, all of the discounts on purchases which Amarillo Oil Company took into its account should be credited to Canadian River Gas Company, is that correct?

A. That is correct.

Q. All right, and finally on Page 50 we come to a new net income and the end of the story. We have adjusted profit here which you consider to be applicable to Canadian River Gas Company in the amount of $214,552.27. Is that right?

A. According to my determination, yes, sir.

Q. Now, where in this whole schedule on Page 49 and Page 50 is the sum of $81,250 which Amarillo Oil Company paid to Canadian River Gas Company as a part of the cost of the gas taken during this period?

A. In the very beginning of our discussion I explained

to you that the gas purchases under the contract January 3rd, 1928 had not been reflected in here.

Q. Well, it is a fact that Amarillo Oil Company did pay Canadian River Gas Company the sum of $81,250 as a part of its cost of gas during this period, is that not correct?

A. That is correct.

Q. Well, why wouldn't it be proper to reflect that payment in this schedule some place?

A. Because if I took a position on that I would have to take a position on some other figure.

Q. Well, wouldn't you consider that a proper deduction and expense item, the cost of gas? I don't care how many other items might be affected; I think here we are primarily concerned in showing the true profit that was made by Amarillo Oil Company in this transaction, and I don't see how you are going to do it.

A. The effect of it is the same—

Q. Without including the balance of their cost of gas, and by "their," I mean Amarillo Oil Company? Now, the effect of it may be the same, but it seems to me it should be in here.

A. In your Journal Entry 48 you are given credit for it because your profit is reduced by that amount.

Q. All right. But the full cost of gas to Amarillo Oil Company is still not reflected in your schedules on Pages 49 and 50 in the amount of $81,250 paid to Canadian River Gas Company by Amarillo Oil Company, is that not correct?

A. That is correct.

Q. Turn to Page 143 of your Exhibit 146, Sub-schedule No. 13-B3, entitled "Canadian River Gas Company Interest During Construction." Down towards the bottom of that schedule—

A. Just a minute. Do you want to cross examine me on this?

Q. I would like to.

A. Well, I'm not supposed to know anything about this.

Q. Well, let's go along and see how far we can get.

A. As a matter of fact, I haven't seen this schedule until you just started talking about it here.

The Trial Examiner: This is one of Mr. Teel's schedules?

The Witness: Yes, sir.

Mr. Spencer: Well, let's see. You and I are both ac-

countants, and we'll look down at the bottom of that schedule under the Examiner's Adjustment No. 248, and that is the one we have been discussing, "Operating Revenue from Properties Acquired from the Amarillo Oil Company as of May 1, 1927." Doesn't the full amount of $214,552.27 which we have been discussing come out of interest during construction?

The Witness: Yes, sir.

By Mr. Spencer:

Q. And it contributes very substantially to reducing us to interest during construction after adjustment to the magnificant sum of $1,030.33, is that not correct?

A. It is absolutely right.

Q. You mean the computation is correct?

A. Well, whichever way you would like it.

Q. All right, now go back to Entry No. 2, Page 48. Did you make this entry?

A. I supplied the figure of $214,552.27.

Q. Now, you made the statement a minute ago that although you had not put in our full cost of gas, and by "our" I mean Amarillo Oil Company, the schedules on Pages 49 and 50, we have still got credit for the cost of the gas some place else in the amount of $81,250.

I want to see where we get credit for it, if you can show me, in our interest account which we are talking about.

A. I thought you did, but I think I will have to retract my statement.

On cross-examination Mr. Teel further testified: (Vol. XLII, pp. 5745-5799.)

Q. Mr. Teel, as I understand it, you have heretofore testified that in making your Adjustment Entry No. 248 on Page 48 of Exhibit 146, you have based your action upon the work Mr. Luttring has done which appears in the scheduled statements on Pages 49 and 50 of the exhibit?

A. That is correct.

Q. And certain supporting journal entries which were also prepared by Mr. Luttring on Pages 51 and 52?

A. That is correct.

Q. Now turn to Entry No. 249 on Page 53 which is like-

wise an adjustment entry affecting the interest during construction account of Canadian River Gas Company.

A. That is correct.

Q. And this is the final entry that you make?

A. That is correct.

Q. And this account brings it down to approximately $1,000 for that account in a supporting schedule which appears later in the exhibit?

A. That is correct.

Q. Now, in connection with other entries, Mr. Luttring has found what he terms an appreciation in the cost of leaseholds of Canadian River Gas Company, appearing on its books; that is to say, the excess of the cost to Canadian River over and above the original cost of the same leases to Amarillo Oil Company as he finds it to be.

A. That is correct.

Q. Now, the total of the appreciated value—cost of these leases as found by Mr. Luttring, I take it, is the figure shown on Page 53, $3,496,535.24?

A. That is the amount used, yes, sir.

Q. And for the purposes of your Entry No. 249 you have taken out any interest during construction on this amount which I have just read?

A. That is correct. The purpose of this entry is to collect in one place the total appreciation as reflected by Mr. Luttring's Entries 203, 205, 211, 216 and 217, and to then compute the interest on those amounts and to eliminate it from the interest during construction previously set up in Entry No. 247.

Q. You made no investigation into the original cost of these leases to Amarillo Oil Company?

A. I have not.

Q. You have made no separate investigation to determine what appreciation should or should not be set up with respect to the leases acquired by Canadian River Gas Company from Amarillo Oil Company?

A. I have not.

Q. And for the purposes of this entry, you merely have accepted the work and conclusions of Mr. Luttring on this subject?

A. That is correct.

Q. And if Mr. Luttring is wrong in whole or in part in his treatment of this amount which he calls appreciation,

then you would likewise be wrong to that extent in your treatment of interest on such so-called appreciation?

A. That is correct. The interest would be adjusted by the amount applicable.

Q. From the disposition that was made by Mr. Luttring's work on this subject, it would naturally follow that the same results would be applied to what you have done here?

A. That is correct.

Q. And again, you don't question that the interest is paid?

A. The interest was paid.

Q. I think that is all for that item for the present.

Now turn to Page 59 of your Exhibit 146, and you have certain items in the total sum of $186,957.96 which you suspend for consideration of the Commission, is that right?

A. That is correct.

Q. And the details of that total amount are shown in Schedule No. 1 on Page 60?

A. Those amounts are distributed to the plant accounts in Schedule No. 1, starting on Page 62 of this exhibit and extending through Page 64. That is the total of those two amounts.

The detail of the $172,778.33 is presented in the schedule presented on Pages 60 and 61 of this exhibit. The purchase commissions in the amount of $14,179.63 are presented on Sub-schedule No. 16-A, Page 166, of this exhibit.

Q. Yes. I see. Now, the total amount suspended is divided into two general items, the first being Ford, Bacon & Davis, Inc. fees and related charges in the amount of $172,778.33.

A. That is correct.

Q. You don't question that engineering services are necessary in the construction of a project of this character?

A. No. That is not questioned.

Q. You do not question that engineering services were performed by Ford, Bacon & Davis in connection with the construction of this project?

A. No.

Q. I mean by that, services for Canadian River Gas Company.

A. That is correct.

Q. You do not dispute the fact that such services were of value?

A. No.

Q. You do not find that the amount paid for such services and related charges in the amount of $172,778.33 was unreasonable?

A. I make no findings as to whether that is reasonable or unreasonable.

Q. You do not dispute the fact that that sum was paid Ford, Bacon & Davis for such services?

A. No.

Q. By Canadian River Gas Company.

A. No, that is not disputed.

Q. And then you suspend it for the consideration of the Commission for what reason?

A. The reason for which the Ford, Bacon & Davis, Inc. charges have been suspended have been presented in detail on Exhibit No. 139—in Exhibit 139, beginning on Page 48-A.

Q. Excuse me, I didn't get that.

A. Exhibit 139.

Q. Yes, Pages what?

A. And begins on Page 48-A, extending through 48-B and 48-C.

Q. All right, we'll come back to that a little later.

Now, the second item making up the total sum suspended of $186,957.96 described as purchase commissions paid to Standard Oil Company of New Jersey in the amount of $14,179.63—is that correct?

A. That is correct.

Q. Does this amount represent the charges or commissions paid to Standard Oil Company of New Jersey by Canadian River Gas Company in connection with the purchases of pipe and materials and supplies which went into this project during the period of construction?

A. I believe that they do. The records indicated, as shown on voucher information recorded on Page 166, and the explanation on the first voucher B-6 memo, dated February, 1928, reads:

"* * * also commission (½ per cent) charged by the New York office on purchases made during 1927."

The next voucher reads: "One-half per cent commission on 1928 purchases."

The description seemed to stop at "purchase commissions," not going any further than that; that is, it did not describe the type of equipment or what had been purchased.

Q. Well, do you know or did you find out, as a matter of fact, that such purchases were made for Canadian River Gas Company through the purchasing department of Standard Oil Company of New Jersey?

A. Yes, I was told that by—

Q. Then you do not dispute the fact that services were performed by the purchasing department of the Standard Oil Company of New Jersey for Canadian River Gas Company during the construction period?

A. No, that is not disputed.

Q. And you do not find here that the charges for such services as made by Standard Oil Company of New Jersey were unreasonable?

A. I have made no recommendation as to whether the charges were reasonable or unreasonable. However, the percentage of commission charged is not very large.

Q. It is not large in the usual and ordinary sense for such services?

A. I would say that is right.

Q. Do you know that the Standard Oil Company of New Jersey is a large purchaser of pipe and other materials and equipment going into a pipe line project?

A. Yes.

Q. Do large purchasers of such property enjoy, let us say, the most favorable discounts in the purchase of such property?

A. Well, I think that is the practice of the industry.

Q. Would you say, then, that the services performed by Standard Oil Company of New Jersey to Canadian River Gas Company in this connection were of substantial value to the company?

A. I don't believe I am in a position to state whether they were of substantial value since the facts to the extent of such price reduction which might have obtained is unknown to me and I am not familiar with just what advantages did accrue to Canadian River Gas Company through Standard Oil Company of New Jersey doing this purchasing.

Q. From your experience and knowledge as an accountant, would you say that Canadian River Gas Company for its own account, on its own responsibility, could have acquired

this type of materials and equipment necessary for this pipe line upon as favorable terms as Standard Oil Company of New Jersey?

A. I don't think they could have.

Q. One other question: If you had been shown or it should subsequently develop that the purchasing department of Standard Oil Company of New Jersey made no profit whatsoever in connection with its charges of $14,179.63 involved in these purchases, would you then have questioned the item at all?

A. If that commission represented a actual cost of making that purchase, then it is properly applicable to the original cost of the property.

Q. And that would be likewise true if the charge was less than cost, of course?

A. It would be the company's cost, that is correct.

Q. Now, both of these suspensions—oh, first let me ask you, what do you understand is the effect of suspending items of this character for the consideration of the Commission?

A. These items are set out in order to call the attention of the Commission to them, and all the facts which of our knowledge are related in reference to these items. The determination as to whether this figure shall be included in the company's investment is entirely a matter for the Commission.

Q. Why do you think that we should put a red flag on these two items for the purpose of calling attention to the Commission?

A. I should like to read in connection with that the reason outlined by Mr. Schutte in his Exhibit No. 139 which is equally applicable to this suspension as regards this reference, particularly with regard to the purchase commissions. These are the reasons for which the amount was suspended.

Q. Now, before you start reading, is what you are about to read applicable to both transactions?

A. No, this refers to purchase commissions.

Q. Well, take that one up first.

A. Yes.

Q. Now, what page are you reading from?

A. This is Page 46 of Exhibit 139.

The Trial Examiner: Do you adopt those as your reasons, Mr. Teel?

The Witness: Yes, sir. These are facts which we have uncovered in our examination and the facts which we are setting out and form our reasons for making these suspensions.

Beginning with the paragraph numbered 1 on Page 46 of Exhibit 139 it reads:

"(1) The invoices rendered by Standard Oil Company of New Jersey for purchase commissions do not contain any data showing the actual cost of purchasing services rendered. The amount, if any, of inter-company profit resulting from the performance of such services, included in the respondent's plant accounts, is therefore unknown."

By Mr. Spencer:

Q. Well, stop right there. If that is all of the reasons for suspending the commissions paid to Standard Oil Company of New Jersey of purchases, I would like to take them up separately.

A. Well, Paragraphs 2 and 3 both refer to purchase commissions.

Q. All right, then, proceed.

A. "(2) The engineering and construction contract entered into between the respondent and Ford, Bacon & Davis, Inc. on June 1st, 1928 provided, among other things, that the fees which were to be paid the engineers were to cover purchasing services (Paragraph 2). The contract did, however, reserve to the respondent the right to make such purchases as it deemed advisable.

"(3) Several of the invoices from Standard Oil Company of New Jersey for purchase commissions included charges to both Colorado Interstate Gas Company and Canadian River Gas Company. The charge for commissions on purchases in the year 1927 was arbitrarily split 25 per cent to Canadian River Gas Company and 75 per cent to Colorado Interstate Gas Company. This is the approximate mileage ratio of the main transmission line of the two companies."

That completes the part with reference to purchase commissions.

Q. Now, this sentence appears in the first paragraph which you have read: "The amount, if any, of inter-company profit resulting from the performance of such services, included in the respondent's plant accounts, is therefore unknown."

Now, I take it that some special significance is placed upon the words "inter-company profit" in connection with the entries that you are making as to Canadian River Gas Company.

A. The primary reason for this suspension is as outlined in Paragraph 1, that the actual cost of these services has not been demonstrated by the company's books and records. That, added to the fact that the contract with Ford, Bacon & Davis, Inc. which provided that the contract was to cover purchasing services, would bring up the question as to why purchases were made by Standard Oil Company. If these purchases were made by Standard Oil Company, and that is not questioned, then the next question is, what was the actual cost of such services?

Q. And then is that the last question?

A. I think that is right.

Q. In other words, you have reached your conclusions here independent of the existence or non-existence of any so-called inter-company profit as between Standard Oil Company of New Jersey and Canadian River Gas Company, is that correct?

A. Well, that is a matter which was given some thought. If there is any profit in these purchase commissions between Standard Oil Company of New Jersey and the Canadian River Gas Company, then that profit we feel is not a proper charge to the plant accounts.

Q. And do you feel that way because you think that is an inter-company profit?

A. No, I think there is some question because it may not be inter-company. That is probably not the right word to use, but the companies were associated in this undertaking.

Q. Well, they were engaged in a common enterprise, you mean?

A. That is correct, yes.

Q. Well, I think I can cut my cross examination short if you will answer this question:

Are you for the purposes of this entry—this suspension,

rather, as to purchasing commissions paid to Standard Oil Company of New Jersey as shown on Page 59, considering that the two companies, Standard Oil Company of New Jersey and Canadian River Gas Company, were affiliated?

A. Not necessarily.

Q. Well, I'm trying to find out to what extent affiliation or association or inter-company profits, or what not, had to do with the making of this entry.

A. Well, this entry was made because the books and records of the company did show that the two companies, Standard Oil Company of New Jersey and Canadian River Gas Company, were associated in a common enterprise. That being the case, if one party does the purchasing and charges another company, which is a separate corporate entity, for services rendered by it and the records do not show the evidence as to the actual cost of those services, then we feel that there is a question which should be raised as to whether that is the actual cost of those services.

Q. You mean they were associated in a common enterprise by contracts between various parties?

A. In the origin of the Denver project.

Q. That is the only association you were talking about?

A. In connection with this, yes, that is correct.

Q. Now, will you refer me to that part of the Code or your Uniform System of Accounts that covers your instructions on that kind of a transaction?

A. I don't believe the code makes specific instructions to cover that particular point. However, it has been a rather long-standing policy of the Federal Power Commission to eliminate such profits if there be any, or excess.

Q. Now, you mean "excess profits" or what kind of profits?

A. As might accrue from the difference between the actual cost of rendering a service and the amount billed to the company for rendering that service.

Q. Now, is that true as to all purchasing commissions between third parties?

A. Well, whether the parties are third parties, or operating at arm's length—I should say that there would be no question as to the cost of those services—

Q. Do you question that the parties here were dealing at arm's length?

A. The question is here that they were associated in a

common enterprise and one party bills another party for certain services.

Q. Well, are you basing this entry on that general provision in the Code which has something to say about all charges being reasonable and just, or something to that effect?

A. Well, the question here is entirely one of cost.

Q. Of cost?

A. If those costs are determined, if these figures are found by the Commission to be reasonable, I think there will be no further question about it.

Q. And you can't point to me any particular provision in the Code covering a transaction of this character?

A. Not right offhand, I couldn't, no, sir.

Q. You have exercised your judgment, then, in the handling of this entry as an accountant?

A. The judgment of our staff, and that is my judgment, too, as an accountant.

Q. Did somebody else reach this conclusion and did you adopt it, or did you adopt it or reach the conclusion and adopt it in the first instance?

A. Well, I might explain it this way: Mr. Schutte and I worked on these together and we both arrived at the same conclusions.

Q. Who got there first?

A. I don't know whether I could remember that or not.

Q. And you feel that the contractual relations between all parties involved were sufficient to place it in a category where the Standard Oil Company of New Jersey was not permitted to charge in excess of its cost for these services?

A. That is my opinion, yes, sir.

Q. In the second paragraph which you have read on Page 46 of Mr. Schutte's Exhibit No. 139, it refers to engineering and construction contract entered into between Canadian River Gas Company and Ford, Bacon & Davis on June 1, 1928, which provides among other things that the fees paid to the engineers were to cover purchasing services, is that right?

A. That is correct.

Q. That contract is dated thirty days prior to the date which you fix as the end of the construction period, namely, July 1, 1928?

A. That is correct. That is the date of the contract.

However, these fees were paid to Ford, Bacon & Davis back as early as November 1927. Prior to that certain preconstruction charges were paid to them.

Q. Ford, Bacon & Davis commenced the construction of the project about when, do you recall?

A. Ford, Bacon & Davis' construction began—the actual construction, I should say, began sometime in the latter part of 1927. As early as July or August I believe they had survey crews out and had already made substantial investigations in preparation for the beginning of the construction.

Q. To that extent, this contract dated June 1, 1928 operated retroactively?

A. That is correct.

Q. Do you know whether or not Ford, Bacon & Davis performed any purchasing services under that contract?

A. Well, I am sure they did perform certain purchasing services, the extent of which I am not sure about, because there must have been many purchases made in the field which were not made for pipe and couplings and that sort of thing.

Q. And do you know as a matter of fact that as to all of the purchases made by the Standard Oil Company of New Jersey for Canadian River Gas Company, whether the purchases could have been made upon more favorable terms and conditions by Ford, Bacon & Davis?

A. No, I don't know that.

Q. Would you imagine that the purchasing power and privileges of Ford, Bacon & Davis with respect to pipe and pipe line equipment and materials would be as advantageous or favorable as that of the Standard Oil Company of New Jersey?

A. Well, I am not acquainted with Ford, Bacon & Davis' purchasing power, but I shouldn't imagine it would be as big as the Standard Oil Company of New Jersey.

Q. Well, now, let us come to your reason for suspending the other item of $172,778.33 which was paid to Ford, Bacon & Davis for fees and related charges during the construction period as shown on Page 59 of your Exhibit 146.

A. Those reasons are explained on Page 48-A of Mr. Schutte's Exhibit No. 139 and begins with the paragraph numbered 1 on that page extending through Page 48-B, and ending with 48-C.

Q. I think that is sufficient reference without reading it,

again. Perhaps I can cross examine from that without reading it at that point.

Mr. Lange: Very well.

By Mr. Spencer:

Q. Did you make this suspension because there was some affiliation, corporate affiliation between Ford, Bacon & Davis and Canadian River Gas Company?

A. As to whether there is a definite corporate relationship between Ford, Bacon & Davis and Canadian River Gas Company is something I don't know.

Q. Well, you didn't make it for that reason, then?

A. The reason for this suspension—

Q. Answer the question, please.

A. No, not for that reason.

Q. All right. Now, if you want to amplify your answer, go ahead.

A. The major point in this suspension is that certain relations as explained in Mr. Schutte's exhibit, have been developed as existing between the Standard Oil Company and Ford, Bacon & Davis and Colorado Interstate Gas Company. Colorado Interstate Gas Company and the Standard Oil Company of New Jersey and Canadian River Gas Company were all associates in the enterprise of the so-called Denver project. If Ford, Bacon & Davis enjoyed a relationship or if there existed a relationship between Ford, Bacon & Davis and those parties, it would accrue to the advantage of the other members of the combine or enterprise. For that reason the fee and charges recorded by Canadian River Gas Company and paid by them have been suspended to determine whether those charges represent reasonable charges; whether they represent charges of original cost, represent the actual cost of those services, to determine whether they are properly includible in the plant accounts.

Q. Well, I am trying to follow your reasoning and not prolong the cross examination. If I understand you correctly, you find that Canadian River Gas Company and Colorado Interstate Gas Company and Ford, Bacon & Davis through various contracts were engaged in a common enterprise here?

A. That is correct.

Q. That their associations through these contracts led at least to contractual affiliation?

A. That is correct.

Q. Now, as to whether or not there was any corporate affiliation as distinguished from contractual affiliation between Canadian River Gas Company and Ford, Bacon & Davis, you have already said you do not know?

A. That is correct.

Q. All right. Now, just a few more questions about this. Now, assuming that Ford, Bacon & Davis and Canadian River Gas Company are associated or affiliated companies, corporatewise, is this the way to handle a transaction of this kind if you are going to follow the instructions of the Code—your Code, I mean?

A. I think so. We are concerned with the actual original cost of the properties and if these two companies were definitely affiliated as in the case you cited, and one company performs services for the other, then that company is entitled to record only the actual cost of those services and not the profit which might accrue to the company billing the services.

Q. Now, there seems to be some difference of opinion between you and me as to the requirements of the Code when related to transactions between affiliated or associated companies. It is my understanding that your Code does not per se prohibit transactions which may give rise to profits between affiliated or associated companies, does it?

A. As far as recording the cost of those services in the plant account, it is all right, but when the inter-company profit is recorded as an investment, I don't think it should be included in a rate base. That is prohibitive because that is not original cost.

Q. Well, now, you point out to me the specific provision of the Code upon which you rely for that last statement.

A. I don't find that statement in the Code. That is reflected by the policy of the Commission for the past several years and is a principle of original cost accounting.

Q. It is not in the Code, but you gather that to be a policy of the Commission?

A. Yes, sir.

Q. Well, then, to that extent your particular treatment of this item is based upon your judgment which in turn is based upon your experience and knowledge of the general practice with respect to these particular transactions?

A. Will you read that, please?

(The question referred to was read by the reporter, as set forth above.)

The Witness: That is correct.

By Mr. Spencer:

Q. Now, with respect to these two items involved in this suspense account of $186,957.96 on Page 59 of your Exhibit 146, you are passing no judgment upon these figures, as I take it?
A. That is correct.
Q. You are merely flagging them or earmarking them for the attention of the Commission?
A. That is correct.
Q. And you do not say whether or not all or any part of this amount should be taken out of your plant accounts?
A. I do not.
Q. Do you think the Commission has enough information here upon which to base judgment in the matter?

Mr. Lange: Of course, that is a matter for the Examiner and the Commission to determine as to whether the evidence is sufficient or insufficient. This witness wouldn't be able to determine that.

The Trial Examiner: I think perhaps that is true, Mr. Lange.

Mr. Spencer: I'll put it another way:

Q. Do you feel that you have given complete information and data with respect to these items in this Exhibit 146?
A. We have presented all the information available.
Q. All right, Mr. Teel, your summary schedule reflecting all of the adjustments which you and Mr. Luttring have made in this Exhibit 146 and their effect upon the company accounts are shown in Schedule No. 1, are they, commencing on Page 62?
A. That is correct. Schedule No. 1 commencing on Page 62 of this exhibit and extending through Page 64.
Q. And the schedules following Page 64; that is, Page 65 to 170, inclusive, are merely supporting schedules?
A. That is correct. The general plan of the report has been to set up in this Schedule No. 1 the entire plant account

of Canadian River Gas Company as shown by the company's books, both as to number, description and amount, the amount being shown in Column 4.

Q. Yes. I don't want a description of that right now.

A. I was going to add that the supporting schedules are so arranged that each schedule—each principal schedule will pick up a group of these accounts as indicated by the totals on the pages 62, 63 and 64, and then it will have sub-schedules supporting that schedule if such detail was thought necessary.

Q. All right, now, I don't want to take a lot of time with these sub-schedules which support your principal schedule, but I would like to run through them and comment wherever it may be necessary on schedules which we have not heretofore discussed or which you or Mr. Luttring have not discussed.

We will take first the schedules on Pages 65 and 66. Briefly, what are those?

A. Well, it so happens that—

Q. And 67.

A. That schedule comprises three pages.

Q. That's right.

A. That is a summary of the adjusting entries which we have been discussing and merely presents those entries numerically with a brief description and distributes them to the accounts affected.

Q. I think that is clear. That is your work?

A. Yes, sir.

Q. Now, Pages 68 to 79, inclusive, I believe have been discussed by Mr. Luttring?

A. That is correct.

Q. Now go to Page 80, 81 and 82, Schedule No. 3.

A. That schedule, which is entitled "Summary of Gas Wells as of December 31, 1939 after Examiner's adjustments," is a summary of the gas well investment accounts of the company showing the amount recorded by the company in the books—in its books, the Examiner's adjustments applied thereto, and the resultant component parts of the total cost.

Q. As you have found them after adjustments?

A. That is correct, that is after adjustment.

Q. Those do not necessarily reflect the cost of these wells as shown by the company's books?

A. Column 6 of that schedule does show the cost as recorded by the company.

Q. I see. I think that was all brought out by Mr. Keffer, perhaps, yesterday.

A. Yes, I believe it was.

Q. Now, Sub-schedule No. 3-A on Page 83, is that your schedule?

A. Yes. That is a schedule of—

Q. How many pages does that cover?

A. Three pages, 83, 84 and 85.

Q. All right.

A. That is a summary of the depreciation and adjustment account—or, rather, analysis of that account, showing the D & A for each well and the Examiner's adjustments thereto and the effect of those adjustments.

Q. Is this data in this particular schedule, No. 3-A—I suppose that forms the basis for some other exhibit to follow, the foundation for it?

A. So far as I know, that is the only place it appears. It is just set out here for informative purposes to indicate the nature and character of the charges in that particular sub-account.

Q. Under Column 10, which is the last column on Sub-schedule No. 3-A, you use the title "Depreciation and Shrinkage Capitalized." What does that caption mean?

A. That refers to the type of charge which is located—was charged to that particular account, and really is shrinkage or depreciation on material and equipment used in the construction of the well.

Q. Well, I understand depreciation—or, I believe I do, but I don't understand what you have in mind by the word "shrinkage."

A. Shrinkage?

Q. Yes.

A. Well, that could be defined probably by referring to a joint of pipe which might have been twisted and split at one *and* and they had to knock off three or four feet. That joint would shrink three or four feet and so would the value of it.

Q. All right, I think that's enough on that.

The next is Sub-schedule 3-B, commencing on Page 86 and ending on Page 88.

A. 88, that is correct.

Q. Just tell me briefly what that is about.

A. That is a summary of the gas well investment as recorded by the company on its books showing the breakdown or the analysis of the account as reflected by the company's records.

Q. And that is all as per company books?

A. That is correct.

Q. Does that include only the wells which the company owned and operated as of December 31, 1939, I take it?

A. That is correct.

Q. All right, that's sufficient on that.

Now, Schedule No. 4, Page 89 and Page 90.

A. That schedule is an analysis of the drilling and cleaning equipment account No. 216 and is the same as reflected by the books of the company.

Q. You merely show that as supporting detail for that account in the schedule?

A. Yes, that is supporting detail for that account in Schedule No. 1.

Q. Yes. Now, Page 92.

A. I believe 91 is the next page, is it not?

Q. Just a moment. This may not be a very important matter, but on Page 90, in your notes you say: "This amount applied to $24,679.54 develops a net value at December 31, 1939 of $2,852."

I assume you are talking about depreciated book cost.

A. That probably conveys an erroneous impression. The word "book" should have been inserted between "net value" to make it read "net book value."

Q. I see. Page 91, Schedule No. 5. What is that about? That is a summary, isn't it?

A. Yes, that is a summary schedule which takes the field lines in the three accounts and shows the total per books, the Examiner's adjustment by accounts and the effect of those adjustments.

Q. And the adjustments in those accounts have been rather inconsequential?

A. That is correct.

Q. All right, now, Sub-schedule No. 5-A on Pages 92 to 101, inclusive.

A. That is correct.

Q. That is the detail of—

A. That is detail of the field line investment by lines showing the—

Q. As summarized in Schedule No. 5?

A. That is correct.

Q. All right, that is sufficient on that.

Schedule No. 6, appearing on Page 102 is a summary of other field facilities?

A. This schedule is a summary of other field facilities which includes field measuring stations and field compressor stations and sets out the recorded investment by accounts; shows the Examiner's adjustment and the effect of those adjustments.

Q. And the adjustments there are immaterial?

A. Yes, they are immaterial.

Q. Sub-Schedule No. 6-A, appearing on Pages 103 to 105, inclusive, is the supporting data for Schedule No. 6?

A. That is correct.

Q. Is that correct?

A. That is correct.

Q. There are also other supporting sub-schedules?

A. On this particular group?

Q. Yes.

A. 6-B is the supporting schedule for the field compressor station.

Q. Yes, I see. And 6-C, Sub-Schedule No. 6-C?

A. Let's see. Oh, I stated that wrong before. 6-B is the supporting schedule for field compressor station structures. 6-C is the supporting schedule for field compressor station equipment. Those are separated because they were two different types of—

Q. Sub-schedule 6-C appears on Page 107 and 108?

A. That is correct.

Q. Is that all of the supporting schedules for Schedule 6?

A. That is correct.

Q Then we start with Schedule No. 7 on Page 109, and that is a summary of the gasoline plant property account?

A. That is correct, showing the amount per books, the Examiner's adjustments, and the effect thereof.

Q. And the adjustments there again are not substantial?

A. Those are not substantial.

Q. Schedule No. 7 is supported by what sub-schedules, and give the page number so as to identify them in the record—Sub-schedule 7-A on Page 110 and Sub-schedule No. 7-B, describe what that is.

A. That schedule is the supporting schedule for gasoline investment land and rights of way, accounts 900 and 902 on the company's books, respectively

Q. I see. And the next one?

A. Sub-schedule No. 7-B which is found on Page 111, is the supporting schedule for Account 903, gasoline plant structures.

Q. All right, the next one?

A. 7-C—Sub-schedule No. 7-C is found on Page 112 and continues through Page 117. That is the supporting schedule for Account 904, gasoline plant equipment.

Q. All right, the next one?

A. Sub-schedule No. 7-D which is found on Page 118, is the supporting schedule for the Account 905 which is the gasoline delivery line, and Account 906 which is the loading rack.

Q. All right, then we come to another main schedule, Schedule No. 8.

A. That is correct.

Q. Appearing on Page 119. That is a summary of the investment in main line and laterals by lines as of December 31, 1939?

A. That is correct. That schedule has its supporting schedules—

Q. Just a moment.

A. I beg your pardon.

Q. The main adjustment there is in connection with the Clayton lateral, I take it?

A. That is correct.

Q. Which we have discussed heretofore?

A. Yes.

Q. All right, now, the supporting schedule, please, Mr. Teel?

A. The Sub-schedule No. 8-A which is found on Page 120 is the supporting schedule of the transmission mains and laterals of Account 226, equipment, and presents a break-

down of the types of equipment and items of construction cost by the and by the main line laterals showing the effect of the Examiner's adjustments thereto.

Q. All right, Mr. Teel.

A. Do you have that?

Q. Yes. The next one. There is only one sub-schedule?

A. That is correct, only one sub-schedule for that.

Q. All right, Schedule No. 9 appearing on Page 121 which is a summary of the dehydration plant, land structures and equipment account. There are no adjustments there, Mr. Teel?

A. No, there are no adjustments. That is the total per books and as adjusted. Those two totals are the same.

Q. And there are how many sub-schedules supporting that schedule?

A. There are two sub-schedules for that schedule, Sub-schedule No. 9-A on Page 122 being the supporting schedule for dehydration plant structures account 223-D. Sub-schedule No. 9-B, which is on Page 123, is the supporting schedule for the dehydration plant equipment account 227-D.

Q. All right, the next schedule is No. 10 appearing on Page 124 and is a summary of the main compressor station account which is the Bivins compressor station?

A. That is correct.

Q. The Examiner's adjustments there about offset each other, is that correct?

A. Yes, that is correct. The only adjustment there of any particular significance is the transfer from compressor station equipment to gasoline plant equipment which was discussed yesterday.

Q. That's right. Now, you have how many sub-schedules supporting that Schedule No. 10?

A. Page 125 shows sub-schedule No. 10-A which supports main compressor station structures.

Q. Yes.

A. Sub-schedule No. 10-B appears on Page 126.

Q. That's right.

A. Which is the supporting schedule for main compressor station equipment.

Q. And then go to Schedule No. 11.

A. That is correct.

Q. On Page 127, which is a summary of the measuring stations account,

A. That is right.

Q. I don't think that requires any further explanation, Mr. Teel, except I wish you would go through the sub-schedules supporting that schedule as you have done heretofore.

A. All right. Sub-schedule No. 11-A which appears on Pages 128, 129, 130 and ending on 131 is a supporting schedule which takes up the various accounts by stations and develops the total cost for each station showing the amounts recorded in that station's cost and of each account that is included therein. There is also reflected the Examiner's adjustments and it develops the adjusted cost of each station.

Q. All right, I think that is clear, Mr. Teel.

Now, Schedule No. 12 appearing on Page 132 is a summary of the Bivins camp property account, is that right?

A. That is correct.

Q. There is a very small adjustment there?

A. Yes, I believe that is for meter—.

Q. And this Schedule No. 12 is supported by what subschedule?

A. Sub-schedule No. 12-A which appears on Page 133 is the supporting schedule for Account 223, Bivins camp structures. Sub-schedule No. 12-B which appears on Page 134 and 135 is the supporting schedule for Account 227, Bivins camp equipment. These schedules show the amounts per books and any adjustments which have been applied thereto.

Q. Then we come to Schedule No. 13, Page 136, which is a summary of undistributed fixed capital account.

A. That is correct.

Q. There we have these adjustments on interest during construction which we have discussed.

A. That is correct.

Q. That credit in Column 5 appears to be over a millicn dollars, I presume, because some amount went in and out of there a couple of times?

A. That is because in the original setup of that interest you remember we credited interest with the amount recorded, and then we again credited interest with those adjustments which appear in 248 and 249, I believe.

Q. There is a total out there at the end of that Account

266. I can't quite read it. What is that figure for interest during construction?

A. $1,030.33.

Q. Yes, sir, that's right. Now this Schedule No. 13 is supported by what sub-schedule, Mr. Teel?

A. Sub-schedule No. 13-A is an analysis of law expenditures during construction and supports Account No. 262 as indicated on Page 136. This sub-schedule is found on Page 137 and reflects the total per books as of December '39, and the Examiner's adjustments thereto and the effect of those adjustments.

Q. As I recall, that is involved in reclassification?

A. That is correct. The adjustment is a reclassification.

Q. All right, the next sub-schedule?

A. The next sub-schedule beginning with 13-B and extending through—that is on Page 138, and extending through 13-B3 including the pages numbered 138 to 150 being all supporting schedules to interest during construction which we went over this morning.

Q. I see.

A. Do you want those explained again?

Q. Just let me glance through them and perhaps it won't be necessary to ask you any questions about them. I'll confess to you now that I haven't read everything that is in this report.

Well, I don't have any further questions for the time being on any of those pages, Mr. Teel. Let's go on to Sub-schedule No. 13-C on Pages 151 and 152.

A. 13—Sub-schedule No 13-C is a proposed distribution of undistributed fixed capital to primary accounts as adjusted as of December 31, 1939. That schedule picks up the adjusted totals of the various accounts as reflected on Schedule No. 1, Pages 62 to 64 and distributes to those accounts on a dollar basis with certain exceptions the undistributed fixed capital which is presented on Schedule No. 13 on Page 136.

The basis of apportionment is presented on Page 152 and it should be explained that that schedule is placed in this report for informative purposes, showing a proposed distribution of undistributed fixed capital in order to remove it from the plant account as such, but to still retain it in the plant account in service.

Q. I see. I think that is clear, Mr. Teel. I take it there is still a problem of distributing that amount year by year?

A. Well, that is probably true.

Schedule No. 14, Page 153, is a summary of general property as of December 31, 1939 with your adjustments? It also goes over to Page 154?

A. That is correct. That shows the—

Q. Have you got any further explanation about that?

A. Well, that schedule takes up the so-called general property accounts and shows a brief analysis of those accounts, arriving at the total recorded by the company on its books as of December 31, 1939, the Examiner's adjustments to the various accounts, and the effect of those adjustments.

Q. That Schedule No. 14 is supported by what sub-schedules?

A. Sub-schedule No. 14-A on Page 155 is the supporting schedule for Account 247, general office structures.

Q. All right, the next one?

A. Sub-schedule No. 14-B on Page 156 is the supporting schedule for Account 248, other general structures.

Q. The next one?

A. Sub-schedule No. 14-C on Page 157, is the supporting schedule for Account 249, office equipment.

Q. And the next one?

A. Sub-schedule No. 14-D on Page 158 is the supporting schedule for Account 250, general stores equipment, and shows the recorded cost of those stores per the company's books at the various locations.

Q. I see. And the next sub-schedule, please?

A. Sub-schedule No. 14-E, which is the supporting schedule for Account 253, general garage equipment (autos and trucks) on Page 159. That sets out by units the recorded cost of those vehicles as shown by the company's books.

Q. Suppose that you just go ahead and briefly describe the balance of these sub-schedules and I believe we can save time.

A. Sub-schedule No. 14-F which is the supporting schedule for the telephone system consists of Accounts 255 and 255-E. 255 is the right of way account and 255-E is the equipment account. This schedule reflects the amount recorded in the company's books, the Examiner's adjustments

and the adjusted investment for the various divisions of that telephone system as shown by the company's books, as a geographical division.

Q. Yes.

A. That is Page 160.

Q. Go right ahead.

A. Sub-schedule No. 14-G is the supporting schedule for Account 256, general tools and implements and shows the amount and description of the equipment as recorded on the company's books.

Q. Not the location?

A. Not the location.

Q. All right.

A. Sub-schedule No. 14-H is on Page 162, which is the supporting schedule for Account 257, other general equipment, which shows the recorded investment per the company's books, and also the location of that equipment and the Examiner's adjustments to that account.

Q. That ends the sub-schedules to Schedule No. 14.

A. That is correct.

Q. Now we come to Schedule No. 15 appearing on Pages 163 and 164. What is that, please?

A. That is an analytical schedule which is a supporting schedule for balance sheet account called Construction in Progress. We have also shown that account on Schedule No. 1 of this exhibit, and this schedule which is on Pages 163 and 164 is a brief analysis of sub-accounts of the work order No. 540 for the Dalhart compressor station and for work orders 541 and 542 which are for work on field lines. These figures shown on this schedule are the same as shown on the Company's books as of June 30th, 1940. The amount for that date is also shown along with the amount for December 31, 1939.

Q. However, you do not use the June 30th, 1940 figures in your schedule No. 1?

A. No, the December 1939 figure is used in Schedule No. 1.

Q. I will ask you if you know whether or not this work order No. 540, Dalhart compressor station, has now been closed out substantially?

A. Yes, it was closed out and then reopened. I sup-

pose by now it is probably closed again. It is now on the company's books as plant investment.

Q. Which will be reflected in subsequent statements?

A. That is correct.

Q. Schedule No. 16, appearing on Page 165?

A. Schedule No. 16 is a statement of construction overhead distributed to plant accounts.

Q. Now, is this your distribution of something?

A. The distribution to the—I beg your pardon, do you mean the description of the columns? of the column headings?

Q. No. Your title is "Construction overheads distributed to plant accounts," and I asked you if they were distributions that had been made by you as an Examiner or distributions reflected on the books of the company.

A. These are the company's distributions.

Q. I see. All right, go ahead and explain it a little further, please.

A. Why, the purpose of this schedule is an attempt to gather in one place the items which have been charged to the plant account as construction overheads during the initial construction and later periods, and the type or character of the charges is shown in the column headings from 3 to 9, inclusive.

Column 11 describes certain miscellaneous charges. The captions under Column 1 are those found on the company's books or on Ford, Bacon & Davis' books in which certain of these costs were reflected.

Q. What is the particular purpose for furnishing detailed information of this character as far as this exhibit is concerned?

A. Well, in making any audit of this type, one of the first phases of investigation concerns overheads, both overhead distributed during construction and subsequently, and this schedule is presented merely for information to indicate the amount of overhead which we could identify as having been charged to the property.

Q. I believe your instructions say something about making a study of the particular items?

A. Yes, they refer, I am sure, to overhead items.

Q. You put it in here for the purpose of making your information complete?

A. That is correct.

Q. Would you attempt to distribute these items against the present-day property?

A. Well, the items have already been distributed to the plant accounts and are in the plant accounts now.

Q. Well, you aren't distributing them, then?

A. No, this is no redistribution.

Q. Is there any intention to redistribute or reclassify by the inclusion of this particular schedule in here?

A. No.

Q. It is merely for informative purposes?

A. Correct.

Q. All right, No. 17, Page 166, that is the detail on the purchase commissions which we discussed a short time ago?

A. Isn't that Sub-schedule 16-A?

Q. I can't see. I was guessing.

A. It is Sub-schedule 16-A, and that is the detail of the purchase commissions.

Q. I think you are correct. All right, we have discussed that one.

A. That is correct.

Q. That covers Pages 166 and—

A. That page only.

Q. That page only?

A. That is correct.

Q. Now, I show Sub-schedule 16 here on my copy—

A. Is that Page 167?

Q. On Page 167 there is no letter.

A. That was evidently obliterated. It should be 16-B.

Q. It should be 16-B?

A. That is correct.

The Trial Examiner: Page 167?

The Witness: That is correct.

The Trial Examiner: That should be Sub-schedule No. 16-B.

The Witness: That is correct. That extends over to Page 168, also.

The Trial Examiner: Mr. Reporter, will you correct the original of that exhibit, please?

By Mr. Spencer:

Q. We have discussed the subject matter of this schedule which is a summary of the Ford, Bacon & Davis engineering construction fees capitalized?
A. That is correct.
Q. We have discussed that?
A. Yes, that was discussed under the suspension.
Q. I don't believe we have discussed Sub-schedule No. 16-C appearing on Page 169.
A. No. That schedule was placed in there for informative purposes, and is a summary of Account 259 which is reflected on Page 165 as a part of Schedule No. 16. It is an analysis of the account which I made and is placed in here as a support for that particular account.
Q. It has no other significance?
A. That is correct.
Q. All right, the last one is Sub-schedule No. 16-D on Page 170.
A. That schedule is a distribution of overheads in plant accounts at December 31, 1939 before adjustments, and reflects the Company's distribution of the overheads which are found on Page 165 in Schedule No. 16. The distribution shown here was made by the company and is now recorded in their plant accounts.

Mr. Spencer: Mr. Examiner, if we could have a short recess at this time I believe we could close up with Mr. Teel at the conclusion of the recess in a rather brief time.

The Trial Examiner: Very well, we will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Spencer:

Q. Have you examined the accounts of Canadian River

Gas Company, Mr. Teel, having to do with the purchase of automobiles and trucks? I assume you have.

A. Yes, I have examined those accounts.

Q. And do you find in there that purchases of autos and trucks have been through some larger company that had what we call a fleet user's discount?

A. As I remember, the company did receive a fleet discount in the purchase of their cars.

Q. And who was the fleet user in that case entitled to the discount?

A. I don't remember. I thought it was Canadian River. I don't have that information here. I didn't record it.

Q. You don't know that it was Consolidated Oil Corporation and its subsidiaries?

A. I think I have seen that company's name on some of those records.

Q. And the purchasing department of Consolidated Oil Corporation and its subsidiaries passed that discount back to the company?

A. That discount is reflected in the cost of the car.

Q. Now, applying the same principles that you have used here in connection with the commissions paid Standard Oil Company of New Jersey for purchases made on behalf of Canadian River Gas Company during this period of construction, how do you think those particular discounts should be treated on the books of Canadian River Gas Company?

A. Are you referring to the discounts on other than trucks?

Q. Yes.

A. I think those discounts should be treated as they have been, as a reduction of the original cost of the car or truck, whichever it was.

Q. You don't think they should have been capitalized?

A. No, I do not.

Q. All right. Now, on Page—I am looking for your summary schedule.

A. That is on Page 63.

Q. Page 62?

A. Page 63. I beg your pardon, it is on Page 62.

Q. That is Schedule No. 1 appearing on Page 62, Page 63 and Page 64?

A. That is correct.

Q. Now, that schedule reflects the company's property account as per books and gives effect to the Examiner's adjustments and then arrives at an adjusted amount in Column 7?

A. That is correct.

Q. Which is the total except for certain amounts during—appearing in Column 8, which have been suspended for Commission's consideration?

A. That is correct.

Q. This particular schedule is really a recapitulation of what you have done in all of the other entries, schedules, and so forth, in this exhibit?

A. That is correct. It presents in one schedule a summarization of the results of the audit of the plant accounts.

Q. Now, I wish you would turn to the appendix of the Uniform System of Accounts of the Commission and find that particular part of the appendix which relates to the several accounts being what is known as plant account.

A. The appendix of the Uniform System of Accounts—

Q. I'll see if I can find it.

A. Mr. Spencer, are you referring to Appendix 2, which starts on 159?

Q. I think so. It will be more clear when I tell you the purpose of having you refer to it. I want you to start with Account No. 205 in the schedule shown on Page 62 and tell me to which account as designated by the Commission's Code, one of these accounts shown in Schedule No. 1, should be assigned so that I can see what kind of a plant account we have left according to the Commission's Code by applying your numbers, I mean the Commission's numbers, to the account number of the company as shown here.

A. Well, let me say that in setting up these accounts on Schedule 1, we have attempted—I have attempted no reclassification except to the extent shown in the groups—in the grouping of the four accounts under other field facilities. That was purely of my own invention and was set out there to group those four accounts together. As far as relating the accounts in Schedule 1 to the accounts in the Commission's Code of Accounts beginning on Page 59, that could be done, but it would probably take some little time to do that, but it would have to be from the similarity on the names of the accounts.

Q. You wouldn't want to undertake to do that without further study and investigation?

A. Well, as I said, we attempted no classification of accounts except between what we call production plant and transmission plant. The other classification is that of the companies and is so reflected in this exhibit.

Q. Well, I don't want to ask you to undertake something that would require any additional work on your part or any additional investigation. I thought that perhaps the property classifications shown here would fall into certain classifications shown on the Commission's Code of Accounts without any confusion or difference.

A. I think that it probably would. However, in reclassifying this I wouldn't want to attempt to make a reclassification just from here, saying that this account belongs here and that one there. It would have to be from the similarity of the names. I could start out and say that leaseholds belonging to natural gas production plant—

Q. Account number?

A. Account No. 330.

Q. I don't want to ask you to do it offhand, Mr. Teel. I am not trying to lay any trap for you. If you don't want to do it offhand—

A. I would rather not do it offhand.

Q. Let me ask you this: If Canadian River Gas Company is a natural gas company and under the jurisdiction of the Commission under the Natural Gas Act, the time is coming when the company itself must do something of this character with respect to its properties and its accounts, is that correct?

A. That is true.

Q. In order to comply with the order of the Commission as heretofore promulgated?

A. That is correct.

Mr. Lange: Counsel knows that there is an Order 73 outstanding that—

Mr. Spencer: Well, I am not trying to get Mr. Teel to do the work for us necessarily, but I am trying to find out—intending to find out to what extent the work that he has done here might be in conformity with that order and those instructions.

Q. Well, let me ask you some general questions about it: Perhaps that will suffice.

Turn to Page 64. In the middle of that schedule you have a phrase there entitled "Total Gas Plant Accounts." Do you think that is an accurate description?

A. No.

Q. For the plant facilities and the figures shown as being applicable thereto in totals?

A. No, as I indicated to Mr. Keffer a day or two ago, I think now that caption describing that particular line should have been "Total Gas Plant in Service."

Q. Yes, I remember that, Mr. Teel. As a matter of fact, if you were setting up the total gas plant account in conformity with the instructions contained in the Code, this bottom item, "Construction in Progress" would not be excluded from plant account, would it?

A. No, that would be "Construction in Progress" only as long as it was in progress. When it was completed and the accounts closed, it would automatically be transferred to gas plant in service.

Q. Gas plant adjustments account 107 would not be excluded from the utility plant account, would it?

A. Gas plant adjustment is a separate account from gas plant.

Q. I understand that. The balance sheet—for the balance sheet purposes it would not be separated from the gas plant account, would it?

A. On the balance sheet account?

Q. Yes.

A. Yes, it is a separate account on the balance sheet.

Q. It is still listed under the head "Utility Plant," is it not?

A. I believe that is correct.

Q. The gas plant held for future use is not excluded from the utility plant, is it, as set up on the balance sheet?

A. No, gas plant held for future use is included in Account 100, gas plant.

Q. So that the only item that you have below your total gas plant accounts which would not be included as utility plant on the balance sheet is Account 110, other physical property, is that not correct?

A. Account 110 and 107—no, I beg your pardon. You are correct.

Q. All right. Now, if you purport to show the total gas plant account of this company, don't you think it is misleading not to include these other items which you have shown below "Total Gas Plant Account" and which would be included if we were conforming to the Code with respect to the balance sheet? In other words, isn't it a little misleading to anyone that wants to find out what this company actually has invested in gas plant account?

A. Yes, I think it might be a little misleading. However, the caption—

Q. You have already explained that "Total Gas Plant Accounts" probably should be "Total Gas Plant Account in Service."

A. Yes.

Q. Then you would have reached another total some place below that with a different description if you were revising this?

A. Yes, I probably would.

Mr. Lange: I may mention at this point, Mr. Spencer, that there will be a balance sheet in a separate exhibit presented.

The Witness: Which will indicate the breakdown of gas plant in service and the other divisions shown in the balance sheet accounts of the Code.

Mr. Spencer: Well, that will be all right if the Commission members and others studying this record will look at that and not be misled by the particular description here on Page 64. However, I think we have gone far enough with that.

Q. I just want to ask you one more question, I believe, Mr. Teel.

A final figure which you allow for interest during construction to this company after the various and sundry adjustments you make is approximately $1,000?

A. That is correct.

Q. And the amount shown on the company's books as having been actually expended for interest during that period, which is a different period than you are using, however, is approximately $556,000?

A. That is correct.

Q. So that through your various and sundry adjustments, the company has lost, as a capital item, \$550,000—\$555,000?

A. That is correct.

Q. And you have left them with \$1,000, approximately?

A. That is the effect of the adjustment.

Q. Now, do you know or can you find it in your exhibits there, the total amount of money expended by Canadian River Gas Company in its construction program during the construction period?

A. Expended by Canadian River Gas Company?

Q. Yes.

A. Or for the account of Canadian River Gas Company by Ford, Bacon & Davis?

Q. I am speaking of the ultimate expenditures by Amarillo Oil Company for the account of Canadian River Gas Company or by Ford, Bacon & Davis for the account of Canadian River Gas Company, I mean should be treated as expenditures by Canadian River Gas Company.

A. I believe that that sub-schedule in the exhibit will indicate that information.

Q. What sub-schedule is that?

A. Sub-schedule No. 13-B3 on Page 143. Now, that will not indicate all of the money, but it will indicate the amount expended during this construction period as determined by me. Those amounts are reflected in Column 2 of the schedule.

Q. I don't want to arrive at any precise figure, but would I be right in saying that the expenditures were in excess of ten million dollars during that period?

A. Yes.

Q. Now, as an accountant, and based upon your experience and knowledge as an accountant, does it seem reasonable to you that a company engaged in a project of this magnitude and with expenditures in excess of ten million dollars should have interest during construction charges of only approximately one thousand dollars? Does it seem reasonable?

A. I have made this computation on the basis of the facts.

Q. First, answer the question, will you, please, and then you can explain it?

A. Under the existing circumstances, yes.
Q. You think it sounds reasonable?

Mr. Lange: The witness wanted to make an explanation. If he has one to make—

Mr. Spencer: That's all right.

The Witness: I was merely going to say that the computation which is reflected in this exhibit is based on the facts disclosed by the examination. I have presented them for a figure which I think is the correct interest allowance.

By Mr. Spencer:

Q. Well, have you ever in your experience as an accountant come in contact with a similar miracle?
A. Frankly, no.

• • • • •

On redirect examination Mr. Teel testified: (Vol. XLII, pp. 5799-5804.)

Q. Turn to Page 48 of Exhibit 146, the Entry No. 248 involving that item of $81,250, miscellaneous income production. I will ask you whether or not in the making of this entry you have any support in the Uniform System of Accounts, and if so, what section or sections?
A. Yes, the support for that entry which I use—

Mr. Spencer: Pardon me. You are talking about the whole entry and not some part of it?

Mr. Lange: That's right.

The Witness: It is found in the Uniform System of Accounts on Page 41, beginning with the paragraph numbered 17, towards the bottom of the page, extending through paragraph 18, which continues on Page 42. This reads as follows:

"(17) Interest during construction includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. Interest during construction shall be charged to the individual job upon which the funds are expended and shall be credited to Account 536, interest charged to construction—Cr. The period for which interest may be capitalized shall be limited to the period of construction. No interest charges

shall be included in these accounts upon expenditures for construction projects which have been abandoned.

"(Note)—when a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation, or ready for service, shall be treated as 'Gas Plant in Service' and interest thereon as a charge to construction shall cease. Interest on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in Item 17, above."

18 reads:

"(18) 'Earnings and Expenses During Construction' includes (a) all revenues derived during the construction period from property which is included in the cost of the project under construction and (b) all expenses (except taxes) which are attributable to the revenues received."

That was the authority which I used in making this entry.

By Mr. Lange:

Q. Now, then, with reference to the question you were asked concerning Page 59, the entry on Page 59, Exhibit 146, concerning the item there suspended, I will ask you whether, particularly with reference to the second item, purchase commissions paid to Standard Oil Company of New Jersey, whether you have had any occasion—strike that—whether you have had any experience of your own on which you could determine the reasonableness of the amount of any commission of that character?

A. Applicable—

Q. Applicable here?

A. No.

Q. Do you feel competent to determine the reasonableness of such commission?

A. I misunderstood. No, I do not feel competent to determine the reasonableness of the commissions determined here.

Q. Now, with reference to both suspensions enumerated and set forth on Page 40, you have specifically stated on that page that you reached the conclusions as to the proper

procedure for you to suspend those items and include them in this exhibit based on the reasons there indicated, is that correct?

A. That is correct.

Q. And those reasons are set forth in the exhibit 139 sponsored by Mr. Schutte?

A. That is correct.

Q. At Page 48—through 48-D, inclusive, of that exhibit?

A. I believe it is 48-A. Mr. Schutte's reasons—I mean—there are certain figures which pertain to the Colorado Interstate Gas Company accounts on those figures, but—

Q. In other words, Mr. Schutte sets forth his reasons and supports them with certain basis or certain figures and statistics—or, rather, material set forth in the following pages through 48-D?

A. That is correct.

Q. And as I understand from your testimony, you are supporting your suspensions in Exhibit 146 based on all of those given by Mr. Schutte?

A. That is correct.

Q. Pages 48-A through 48-C—through 48-D, inclusive?

A. That is correct.

Q. And reached your conclusions that you have in your Exhibit 146 with reference to those suspensions?

A. That is correct.

Q. Now, then, in order that this may definitely indicate it, turn to Page 64 of your Exhibit 146; that is, the third page of Schedule No. 1, isn't it?

A. That is correct.

Q. And as I understand it, at the bottom of that Page 64, the adjusted amount under Column 7, $14,247,921.97 is the adjusted amount of the investment in gas plant account of Canadian River Gas Company as of December 31, 1939?

A. With the exception of the Account 107.

Q. With the exception of Account 107?

A. Which is gas plant adjustment account in the amount of $4,091,088, and Account 110, other physical properties in the amount of $1,176.34. The amount of $9,923,329.94 is the amount recommended here, or the adjusted amount for gas plant in service, on this exhibit. That amount is shown in Column 7 in the second sub-total of that Page 64. The total which you read contains those other items which are not—a part of which have been set out apart from gas plant in service.

Q. Apart from total gas plant in service?

A. That is correct.

Q. And the total in Column 8, $186,957.96 represents the total amount of the items suspended in this exhibit for consideration of the Commission?

A. That is correct.

Q. Then the statement on that Page 64, total gas plant accounts, really states total gas plant in service?

A. That would be more appropriate.

Q. As of December 31, 1939?

A. That is correct.

* * * * * *

On recross examination MR. TEEL testified: (Vol. XLII, pp. 5804-5806.)

Q. Mr. Teel, turn to your Entry No. 248 on Page 48. What you have done here is in reliance upon the conclusions you find on Mr. Luttring's schedule appearing on Pages 49 and 50 of the exhibit?

A. That is correct.

Q. Now, in support of the treatment of this transaction, you have cited Paragraph No. 17 on Pages 41 and 42 of the Uniform System of Accounts.

A. 17 and 18.

Q. 17 and 18, together with the note?

A. That is correct.

Q. Did the method you employed in computing interest during construction—was it based upon borrowed funds?

A. No.

Q. Sir?

A. No, it was not.

Q. This Paragraph 17 says that interest during construction includes the net cost of borrowed funds used for construction purposes. You did not follow that part of the instruction?

A. No, I did not follow that part of it.

Q. Now, during the course of your examination on 248, Entry 248 and the subsequent entries relating to the same transaction or the same subject matter, I should say, there were occasions when both you and Mr. Luttring testified that as to this point or that point, you exercised your own judgment?

A. That is right.

Q. You do not wish to retract that wherever you so testified?

A. No.

Q. Now, what pages are the suspensions on?

A. Those suspensions begin with Page 59 of Exhibit 146.

Q. Now, I have only one question to ask you in that connection. You do not wish at this time to retract any testimony which you may have given here as to the reasons which you had in mind for making these suspensions?

A. No.

Commission Witnesses Luttring and Teel in their Exhibit 146 supra testified concerning original cost of certain properties acquired by Canadian as of May 1, 1927, computed upon the basis of original cost to predecessor companies as adjusted in certain instances by Luttring and Teel.

Commission Witness Schutte testified: (Vol. LXV, pp. 9474-9485.)

Q. Further in connection with this assignment, Mr. Schutte, I will ask you whether you had occasion to make a further—or, rather, an additional study in connection with matters pertaining to Canadian River Gas Company in re reaccounting of items?

A. Yes, sir.

Q. That have been expensed and now are desired to be capitalized?

A. That is correct.

Q. Is this a copy of that written statement that I now show you?

A. Yes, sir.

Q. Will you proceed to read that into the record?

Mr. Spencer: Before you proceed, Mr. Schutte, Mr. Examiner, I want to make the same observations and the same reservations with respect to this written statement as I did regarding the preceding written statement.

The Trial Examiner: Well, in glancing through it here I again note that Mr. Schutte has dealt in the main with specific items involved in the plant accounts of Canadian River Gas Company. Is that correct, Mr. Schutte?

The Witness: Yes, plant accounts as presented in Exhibit 67.

Mr. Lange: And 183?

The Witness: And 183.

Mr. Lange: Heretofore presented in this proceeding by Canadian River Gas Company?

The Witness: Yes, sir.

The Trial Examiner: And the nature of the exhibit—or of the written statement, rather, I take it, while it is dealing with different subject matters, it is in general—treats generally the same matter that we have just read into the record concerning the Colorado Interstate Gas Company?

The Witness: It deals with two items, interest during construction and corporate engineering. Those two are likewise included in the statement in connection with Colorado Interstate Gas Company.

The Trial Examiner: I take it, Mr. Spencer, that other than the statement that you have just made that you are not objecting at this time to the witness reading the statement into the record?

Mr. Spencer: No, I am not. I am suggesting that he read it without interruption, subject to the reservation later to strike any part of it or all of it if we think it is warranted?

The Trial Examiner: Very well, it will be so understood.

The Witness: "Written Statement Re Canadian River Gas Company's Re-accounting for Items Previously Expensed Which It Now Desires To Capitalize:

Canadian River Gas Company, through Ford, Bacon & Davis, Inc., has also presented a claim for the capitalization of Corporate and Engineering Costs and Interest During Construction.

A memorandum report of April 15, 1940, by Ford, Bacon & Davis, Inc., entitled "Items Charged to Expense on the Books of Canadian River Gas Company During the Period

1929 to 1939" presents the details of the computations for this claim.

The determination of Corporate and Engineering Costs (General Administrative Expenses) is based on the ratio of net property additions to the combined total of net property additions and operating and maintenance expenses, which ratio was determined to be 3.5%. This percentage applied to the net property additions, less $10,331.43 previously capitalized, is the basis of the company's claim to capitalize $98,052.70 of a total General Administrative Expenses of $930,077.00 as Corporate and Engineering Costs Applicable to construction work in progress.

The claim for Interest During Construction is based upon a percentage of the net property additions including leaseholds. A footnote on page 5 of the memorandum report, on which page is shown the determination of costs now claimed as capital, reads "Interest at rate of 1½% on physical property equivalent to 1% on total property additions including leaseholds." This percentage applied to the net property additions resulted in the claim for Interest During Construction in the amount of $30,966.90.

The combined amount for Corporate and Engineering Costs and Interest During Construction, as shown by the memorandum report of April 15, 1940, is:

Corporate and Engineering Costs	$ 98,052.70
Interest During Construction	30,966.90
Total	$129,019.60

The Adjustment for General Construction Cost Applicable to Net Property Additions as shown by Statement No. 2 of Exhibit No. 183, introduced in these proceedings by Mr. William A. Lusk, is as follows:

Item	10	Production		$101,989.00
	11	Gathering		13,915.00
	12	Transmission	(A)	8,800.00
		General Property:		
	14	Production		878.00
	15	Gathering		714.00
	16	Transmission	(A)	2,736.00
	18	Total Adjustment		$129,032.00

The excess amount claimed in Exhibit No. 183 as compared with the memorandum report of April 15, 1940, for Corporate and Engineering Costs and Interests During Construction, to be applicable to plant accounts is therefore $12.40.

Note (A): These amounts also shown in Exhibit No. 67, Statement 1, as Items 7 and 12.

Corporate and Engineering Costs.

As in the case of Colorado Interstate Gas Company, engineering and management services were provided under contracts by Ford, Bacon & Davis, Inc. during the early years of operation.

The engineering services rendered by Ford, Bacon & Davis, Inc., during the period the engineering contract was effective, were billed by it and the cost of such services, including construction fees, assigned to appropriate work orders and/or plant accounts by the company. It has been the company's customary procedure to charge appropriate work orders and plant accounts with the cost of engineering and supervisory services performed by members of the company's engineering personnel. Such charges were based on time reports. Expenses usually were readily identifiable with specific jobs and were charged thereto.

It has not been customary procedure, however, since the completion of the primary construction work in 1928, to make any allocation of general administrative expenses, such as salaries and expenses of general officers or of general office clerks. Expenses incurred when identified with specific jobs have been assigned thereto as direct charges, but no general expense allocations have been applied.

The company's management exercised its discretion as permitted under the system of accounts in consistently omitting the allocation of Corporate And Engineering Costs to construction work performed. Such costs, to be properly includible in plant accounts, should be based upon the time actually spent in connection with construction work. Such time studies cannot now be made with any degree of accuracy.

The method used in the determination of this claim very definitely results in the addition to construction costs of

an arbitrary percentage to cover assumed overhead costs, a procedure contrary to sound accounting principles, as it does not represent actual plant costs.

Under "Components of Construction Cost" the Federal Power Commission Uniform System of Accounts provides for the inclusion of "Engineering and Supervision" and various other "*Gereral* Administrative" costs as construction costs, always based on the amount of such costs actually applicable to the construction costs. Under "Overhead Construction Costs" Gas Plant Instruction No. 6(B) reads as follows: "The instructions contained herein shall not be interpreted as permitting the addition to gas plant accounts of arbitrary percentages or amounts to cover assumed overhead costs, but as requiring the assignment to particular jobs and accounts of actual and reasonable overhead costs."

(Underscoring added)

Gas Plant Instruction No. 6(C) provides that: "The Records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each gas plant account and the bases of distribution of such costs."

Instructions concerning General Officers' and Clerks' Salaries and Expenses During Construction, as contained in the Uniform Classification of Accounts for Natural Gas Companies prescribed by the Public Service Commission of the Commonwealth of Pennsylvania, effective January 1, 1920, read in part as follows:

> "Account No. 259. General Officers' and Clerks' Salaries During Construction.
>
> "If the utility is already operating a natural gas system, charge to this account only that proportion of such salaries, that is based upon the time which such officers and clerks actually spend in new construction."

"Account No. 260. 'General Officers' and Clerks' Expenses During Construction.

"If the utility is already operating a natural gas system, charge to this account only those expenses that are incurred while such officers and clerks are actually engaged on construction work."

The method employed in the determination of Corporate and Engineering Costs now sought to be capitalized, very definitely does not follow these instructions.

Interest During Construction.

The basis used for the determination of Interest During Construction, now sought to be capitalized, is as previously stated, 1½% on physical property additions, which is said to be the equivalent of 1% on total property additions including leaseholds.

The application of interest to property additions such as the cost of renewing leases, which costs were capitalized by the company, is definitely not warranted.

As stated in connection with the claim of Colorado Interstate Gas Company for the present allowance of Interest During Construction which the company did not choose to charge at the time such expenditures were incurred, customary accounting practice in connection with the computation of Interest During Construction is and has been to ignore such computations for relatively small jobs and for jobs of short duration. It is also customary to base such computations on the actual monthly expenditures by individual jobs and to assign the interest costs resulting from such computations to the individual jobs.

That the company's management exercised its discretion as permitted under the system of accounts in not assigning interest costs to construction work, is incontestable. This omission continued throughout the years of operation and, although the company's records and accounts have been subject to periodic audits, no objection to this policy has been found in the company's records.

As one of the "Components of Construction Cost" Gas Plant Instruction No. 5 (17) of the Federal Power Commission Uniform System of Accounts permits the charging of Interest During Construction on the following basis:

"Interest during construction includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. Interest during construction shall be charged to the individual job upon which the funds are expended and shall be credited to account No. 536, Interest Charged to Construction—Cr. The period for which interest may be capitalized shall be limited to the period of construction. No interest charges shall be included in these accounts upon expenditures for construction projects which have been abandoned."

The method used by Ford, Bacon & Davis, Inc. for computation of Interest During Construction is very definitely not in accordance with this instruction.

As previously stated, the accounts and records of Canadian River Gas Company have been examined and audited periodically. Due to the unusual type of gas sales contracts between Canadian River Gas Company and Amarillo Oil Company, also between the former company and Colorado Interstate Gas Company, the records and accounts were audited in considerable detail by representatives of both Amarillo Oil Company and Colorado Interstate Gas Company, since accounting errors such as the assignment of expenses to capital, or capital items to expense, would affect the price at which gas is sold and would also have an affect on the inter-company note issues.

The capitalization of Interest During Construction and of Corporate and Engineering Costs, had the company followed such procedure, would have resulted in increasing the amounts advanced by Colorado Interstate Gas Company which are secured by a series of notes, increased the amortization of such notes, currently decreased and subsequently increased the "so-called cost of gas", i. e., the price at which the gas was sold.

Accordingly, any discretionary practices exercised by the management of Canadian River Gas Company, as permitted under the system of accounts in use, would necessarily be either approved or disapproved in the courts of the audits mentioned, and the absence of adjustments or objections to the company's choice in the treatment of these costs makes it apparent that such treatment was approved.

It cannot therefore be said that ~~the present~~ claim to capitalize such costs is due to accounting errors now sought to be corrected. Such re-accounting, in my opinion, is simply a means of inflating the plant accounts."

By Mr. Lange:

Q. Mr. Schutte, in connection with the two items especially that you have discussed in your written statement, Corporate Engineering Costs and Interest during Construction, do you have any other observation or opinion to express at this time?

A. I think not.

Q. And you have approached the discussion of these two items in your written statement entirely and solely from an accounting standpoint?

A. Yes, sir.

Q. No other?

A. No other.

Canadian, through Witness Lusk, introduced, and there was received in evidence, (Vol LXXXXI, page 13862) Exhibit 194. This exhibit is prefaced by a statement of Lusk appearing in the record (Vol. LXV, pp. 9349-9396), and is as follows:

EXHIBIT NO. 194

Canadian River Gas Company

Cost to Predecessor Companies of Property Acquired by Canadian River Gas Company as of May 1, 1927

Written Statement of William A. Lusk

The books and records of the Amarillo Oil Company, hereinafter called "Amarillo" and certain other predecessor companies have been examined for the purpose of ascertaining the cost to the predecessor companies of certain assets, consisting of producing gas wells, operated and unoperated gas leaseholds and oil and gas leaseholds acquired by Canadian River Gas Company, hereinafter called "Canadian" as of May 1, 1927. The acquisitions of property by

Amarillo from other individuals and companies have been divided into the following periods:

1. Acquisitions from various vendors between the date of incorporation, April, 1917 and January 15, 1923.

2. Acquisition from Mission Oil Company as of January 16, 1923, including costs to A. R. Jones and Associates.

3. Acquisition from Mountain States Gas Company as of August 1, 1924, including costs to Producers & Refiners Corporation.

4. Amarillo Oil Company, January 16, 1923 to May 1, 1927.

The transfer of these properties to Canadian River Gas Company by Amarillo Oil Company was made as of May 31, 1928 but became effective as of May 1, 1927. The additions made by Amarillo Oil Company for the account of Canadian River Gas Company between May 1, 1927 and May 31, 1928 were made at cost and have been excluded from the detailed statements attached hereto.

Separate investigations were made of the books and records of A. R. Jones and Associates. The Mission Oil Company, Producers & Refiners Corporation and Mountain States Gas Company.

A continuous history of each leasehold and well was traced fairly satisfactorily from the time of initial acquisition of the leasehold and initial drilling of a well to final disposition by Amarillo through transfer to Canadian. Exceptions are noted in the section of this report devoted to Operated Leaseholds.

Operated Gas Leaseholds.

The study was confined to the two capital asset accounts appearing on the books of Amarillo at May 31, 1928, entitled "Operated Leaseholds Investment—Gas" and "Unoperated Leaseholds" and the credit account known as "Gas Department Adjustment". Other accounts in the form of reserves, expenses, material accounts and receivables transferred by Amarillo to Canadian have not been considered.

There were approximately 294,915 acres of operated leaseholds involved in the transfer by Amarillo to Canadian, as shown on Statement No. 2, the largest single tracts being the Bivins "A" lease of 200,000 acres and the Masterson "A" lease of 29,455 acres. Both of these leases were acquired by Amarillo through purchase of Mountain States Gas Company acreage.

The recorded cost of all the operated acreage transferred by Amarillo to Canadian also shown on Statement No. 2 was stated at $831,066.68. At the time Amarillo acquired the Mission Oil Company interests, as of January 15, 1923, a representative of Mission Oil Company reclassified the accounts of Amarillo Oil Company. This reclassification purported to restate all transactions of Amarillo acting individually, Amarillo-Jones joint account and Amarillo-Mission joint account. The result of the reclassification as shown on Statement No. 2 was a wholly erroneous statement of leasehold costs, due primarily to the inclusion of all drilling costs incurred by Jones and Mission as leasehold costs. Furthermore, the separation of half interests was incorrect because in removing a one-half interest from Amarillo the Mission Oil Company should receive equal benefit. The reclassification removed a one-half interest but failed to complete the transaction. For the purposes of this study all reclassification entries have been reversed as shown on Statement No. 3 and in their stead actual costs shown on Statements Nos. 5, 6 and 7 have been substituted.

Statement No. 4 shows the operated gas leaseholds acquired by Amarillo Oil Company from various vendors from April, 1917 to January 15, 1923. The original acreage acquired by Amarillo Oil Company by assignment from its five incorporators in full payment for capital stock subscriptions were originally grants to one M. C. Nobles (who became the first President of Amarillo). Nobles in turn assigned a one-fifth interest each to four individuals, retaining for himself a one-fifth interest in approximately 77,000 acres. Amarillo can be said to have commenced business with the acquisition of this acreage in April, 1917.

Subsequent acreage transactions are fairly clear until some time in 1919 or 1920 when transactions are somewhat obscure. During this period, apparently to provide Ama-

rillo with funds, approximately thirty-five sales of acreage are recorded. How much acreage changed hands is not known as the books did not record acreage. However, other records do indicate the sale of substantial acreage at prices ranging from $15 to $30 per acre. Also during 1919 or 1920, substantial acreage was released; i.e., the Ozier, Ingerton and Merchant leases and portions of the Bivins and Masterson leases. The Ozier lease was later acquired by Canadian as Lease No. 82 and the Ingerton lease was later acquired by Producets & Refiners Corporation. The Merchant acreage, according to up to date maps of the Amarillo field, is under lease to several oil companies. Sold and released portions of the Bivins "C" and "D" and the Masterson "B" and "C" leases were obtained by subtracting the known acreage at January 15, 1923, from the known acreage at December 31, 1919.

Statement No. 5 shows the expenditures by A. R. Jones et al for drilling and leaseholds acquired by Amarillo Oil Company from Mission Oil Company in 1923. In 1918 Amarillo Oil Company assigned one-half interest in certain acreage to A. R. Jones for which he agreed to drill five wells. Although an actual assignment was made to A. R. Jones and Associates, Amarillo did not record any reduction in acreage or value on its books. Jones made expenditures as shown on Statement No. 5. The Jones interests later assigned to Mission Oil Company. Mission Oil Company's undivided one-half interest was acquired by Amarillo Oil Company as of January 16, 1923 but no acreage was acquired. Only a minor amount was involved for lease rentals as shown.

The acquisition of leaseholds by Amarillo from Mountain States Gas Company as shown on Statement No. 6 involved $273,095.88, including two leaseholds acquired as unoperated and later transferred to operated. Also in these leaseholds there were the Masteron "H" lease and the Masterson "I" lease, each of which had a producing well. The amounts paid for well and lease, $35,000 and $42,600 respectively, were included as lease costs. To adjust the lease account the acreage portion is assumed at an initial bonus of $1.00 per acre plus incidental charges and rentals, the net result being a transfer of $76,318 as shown on State-

ment No. 7 to the well account. Acreage acquired included the Bivins "A" tract of 200,000 acres and the Masterson "A" tract of 29,455 acres.

Acreage acquired by "Amarillo" direct during the period from January 15, 1923 to May 1, 1927 as shown on Statement No. 2 consisted of three leases and totaled 3,998 acres. The amount involved in these transactions was $131,800.52.

Unoperated Gas Leaseholds.

The tracts classified as unoperated leaseholds at the date of transfer by Amarillo to Canadian comprised approximately 30,235 acres, as shown on Statement No. 8, acquired by Amarillo in the Mountain States Gas Company transaction and subsequent acquisitions of approximately 3,841 acres.

Statement No. 9 shows the unoperated gas acreage acquired by Amarillo Oil Company from various vendors prior to January 15, 1923 and its disposition.

The costs of acreage acquired from Mountain States Gas Company were booked by Amarillo in accordance with actual expenditures made by Producers & Refiners Corporation and Mountain States Gas Company as shown on Statement No. 10. All vouchers were reviewed and costs as recorded were found to be properly classified, and no changes have been made.

Statement No. 11 shows the unoperated gas acreage acquired by Amarillo Oil Company from various lessors between January 16, 1923 and May 1, 1927, the various exchanges and transfers made and the cost of the acreage transferred to Canadian River Gas Company as of May 1, 1927.

Other Leaseholds.

Among the gas leaseholds included in the transfer by Amarillo to Canadian, as shown on Statement No. 12, were (a) the Warrick lease, and (b) the Bivins No. 18 lease (Canadian number), on each of which was located a so-called combination well capable of producing both oil and gas as of the date of transfer.

The Warrick lease was acquired by Amarillo by assignment in April, 1917. Recorded costs of the Warrick lease

have been revised to properly reflect 1917 initial costs of obtaining proportionate abstract and recording fees paid by the Jones interests under joint agreements and the restoration of the Amarillo one-half interest eliminated in the reclassification of January, 1923. The reasons for this revision are more fully described in the operated gas leaseholds section of this report.

Bivins No. 18 was acquired by Amarillo in 1926. No changes were made in the recorded cost of this lease.

Gas Wells.

The gas well account of Amarillo at the date of transfer to Canadian showed $23\frac{1}{2}$ producing gas wells and one dry hole. From the records and correspondence relating to wells, it is evident that drilling operations of Amarillo began with the discovery well on the Masterson "C" lease, completed about December 15, 1918. This well was also known as the Hapgood well. During the period from November, 1918 to May, 1922 the Jones interests drilled five producing wells and one dry hole, four of which were for Jones' account under the November 20, 1918 agreement, and two, including the dry hole, under Amarillo-Jones' joint account. The Amarillo-Mission joint venture started two wells which were completed by Amarillo after January 15, 1923. Five complete wells and four wells in various stages of completion were acquired from Mountain States Gas Company as of August 1, 1924. Amarillo Oil Company drilled nine wells from January 16, 1923 to May 1, 1927 which included completion of two wells comenced under the Amarillo-Mission Oil Company agreement. The half interest in the Thompson No. 1 well was acquired from the Panhandle Refining Company, the original cost of which is unknown. In accounting for the number of wells transferred to Canadian, Bivins No. 2 dry hole disappears, although the cost of drilling was included in Bivins C-1. No adjustment has been made for this dry hole, the cost of which is not known, and further it is considered proper in the ascertainment of cost to include the cost of a dry hole with the cost of producing wells. Another dry hole cost included in the transfer of properties was Fuqua No. 1, which later was disposed of by Canadian in the Cliffside transaction.

The recorded cost of gas wells transferred by Amarillo

to Canadian, as shown on Statement No. 13, was $702,-140.88 after giving effect to the credit account known as "Gas Department Adjustment", as shown on Statement No. 15. The history of this adjustment is briefly discussed in the next section of this exhibit.

The well account reclassification as of January 15, 1923, has been reversed as shown on Statement No. 14 for the reasons set forth in the operated leasehold section of this study. Practically all vouchers and entries to incomplete well accounts during the period from January, 1923 to May 1, 1927 were reviewed to determine the nature and extent of amounts charged.

Statement No. 16 shows the well drilling costs expended by Amarillo Oil Company from April, 1917 to January 15, 1923.

Statement No. 17 shows the gross expenditures made by A. R. Jones et al in drilling wells subsequently acquired by Amarillo from Mission Oil Company and the adjustments to obtain the cost of drilling certain wells acquired by Canadian River as of May 1, 1927.

Statement No. 18 shows expenditures for well drilling made by Mission Oil Company from May 1, 1922 to January 16, 1923.

Complete and Incomplete Wells purchased from Mountain States Gas Company were properly recorded in the gas well account. The adjustment of $76,318, shown on Statement No. 14, represents the estimated cost of wells acquired from Mountain States Gas Company as shown on Statement No. 7 and erroneously included as leaseholds.

Development costs charged to Profit and Loss, amounting to $9,492.17, as shown on Statement No. 19 have been restored.

Gas Department Adjustment—"Credit".

This account was created in September, 1925, when the property accounts of Amarillo were restated with detailed well accounts set up to conform with revised property account details. In restating the well accounts it became apparent that certain individual well accounts contained no drilling and labor, teaming or freight charges. Estimates of

drilling and labor, teaming and freight were made and set up in the well accounts, the offset being Gas Department Adjustment—Credit. However, the fact was overlooked that drilling, labor and other costs applicable to wells drilled by the Jones interests, Hapgood, Mission Oil Company and certain wells obtained in the Mountain States Gas Company purchase were erroneously included in leaseholds. The drilling, labor and other costs of the Bush No. 1, Bivins A-3, Bivins B-2 and Masterson A-1 were charged to expense in 1925 but later restored by a charge to Gas Department Adjustment and a credit to Surplus. The well costs included with leaseholds constitute, with a few exceptions, the entire amount of $490,587.07 as shown on Statement No. 15.

The whole procedure was erroneous and resulted in a duplication. Further, as this account now appears on the books of Canadian it should be reversed with leaseholds and gas wells adjusted accordingly.

Other Wells.

There were two combination wells (oil and gas), the gas portions of which were transferred to Canadian. These wells, the Warrick No. 1 and Bivins B-3, were completed by Amarillo during April and May, 1925, and at the time of transfer to Canadian were capable of producing substantial amounts of gas. It was understood that Amarillo was obligated to transfer its entire gas investment to Canadian and as these two wells were gas producers they were included in the transfer. Amarillo, however, did not remove all the gas portion from its investment until December, 1928, and April, 1929. The intangible portion of $39,798.51, as shown by footnote on Statement No. 20, was charged to Paid in Surplus.

Meter Settings.

Included in the transfer to Canadian were meter settings at various wells, the costs of which were carried in Pipe Line Investment by Amarillo. These costs amounting to $4,009.59, as shown on Statement No. 21, were removed from Amarillo's books in August, 1928 and charged to Paid in Surplus.

"Amarillo" Charges to Surplus After Canadian Transfer.

The price received by Amarillo from Canadian for gas properties, automobile purchase account and accrued expenses was $5,000,000, and recorded costs removed from the books of Amarillo, including reserves for depletion and depreciation, aggregated $1,448,305. The excess of $3,551,695 resulting from the transactions was classified on Amarillo's books as of July, 1928, as "Paid in Surplus". Examination of Amarillo's books for subsequent periods showed many items included in the sale, that were not removed from the accounts on May 31, 1928, and for which no subsequent charge was made to Canadian. These additional items charged to "Paid in Surplus", reduced the initial Paid in Surplus from $3,551,695 to $3,433,038.29, or $118,657.

Delay Rentals.

The term "delay rentals" usually applies to an amount paid a lessor for delay in drilling. Payments ordinarily cease when acreage becomes productive of gas and royalty payments begin. Amarillo made substantial payments to its lessors which were treated on its books as delay rentals, but which in fact served to discharge contract obligations which had no direct relation to the *deferrence* of drilling obligations. An outstanding example is the Bivins No. 30 lease wherein Amarillo was obligated to pay a minimum of $72,000 per year with deductions for royalties on gas actually produced. For a period extending from August, 1924, to December, 1927, Amarillo paid lessor $374,509.15 under such obligations. This entire amount is restored as a lease cost on the premise that payments of this nature during the development periods are properly capital.

The above principle has also been applied to unoperated ~~leaseholds and~~ $113,509.30 representing 'delay' rental payments has been restored as leasehold costs. The total amount of the above revisions, i. e., $488,018.45 is shown on Summary Statement No. 1.

General and Administrative Costs.

In this study general and administrative costs are given combined consideration. The method generally has been

to determine the percentage relationship of general and administrative costs to the combined primary costs of operation, maintenance and property additions. It is generally understood that general and administrative costs are not only applicable to the operation of properties but also apply to construction and the acquisition of property during any period. The problem is to allocate a portion of general and administrative costs to the primary cost of Gas Wells, Leaseholds and Other Properties, either acquired or constructed. These costs have been determined and are summarized on Statement No. 22. In only two instances were assumptions made:

(a) The percentage determined for Amarillo from April, 1917 to January, 1923 was applied to the properties acquired by Mission Oil Company from the Jones Interests on the premise that for a part of the time Amarillo and Jones each had a one-half interest in the properties.

(b) Mountain States Gas Company after acquiring the Producers & Refiners Corporation properties in the Amarillo field, increased their holdings and then held the combined property for almost a year before sale to Amarillo. It was assumed that general and administrative costs of Mountain States Gas Company were the same in per cent as those of Producers & Refiners Corporation.

After considering the relationship of the entire period from 1917 to 1927, 4.0 per cent was considered a fair and reasonable percentage to apply for general and administrative costs.

Interest Cost.

"Amarillo" has never capitalized interest on its leasing and drilling activities, nor has the Company capitalized any interest on the properties acquired from others. Amarillo, the Jones interests, Producers & Refiners Corporation and Mountain States Gas Company were pioneers in the development of the Amarillo gas field expending substantial amounts of money which were tied up for considerable periods of time before adequate outlets for gas were avail-

able. Amarillo's investment was idle from April, 1917 to October, 1920 the date gas was first delivered at the well to Panhandle Pipe Line Company. The Jones interests had an idle investment from November, 1918 to October 1920 and the investment of Producers & Refiners Corporation and Mountain States Gas Company was without revenue or return in any form from May 1, 1923 to August 1, 1924, the date of sale to Amarillo. During these periods and periods of further development by Amarillo from 1923 to 1927, inclusive, interest should be charged to the development on all money advanced from the date of the first expenditure, to the time the development is in full operation and enjoying a reasonable return.

Considering the nature of the development and the idle investment periods, it is concluded that a reasonable interest cost should be 2.0 per cent. Interest has not been computed on items heretofore charged to expense and restored as capital nor on general and administrative costs.

Conclusion.

From the facts developed herein and after due consideration of all data pertinent to the problem, the restoration of items heretofore expensed and the inclusion of General Administrative and Interest Costs, the cost to the Predecessor Companies of the properties acquired by Canadian River Gas Company as of May 1, 1927, has been determined to be $2,305,841.44, as shown on Statement No. 1.

Signed at Denver, Colorado, this January 30, 1941.

WILLIAM A. LUSK.

Exhibit No. 194

Statement No. 1

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Summary

Item No.	Description	Supporting Statements attached: Book Costs	Supporting Statements attached: Adjustments	Book Costs of Amarillo Oil Company	Adjustments as Recorded Herein	Cost to Predecessor Companies
(1)	(2)	(3)		(4)	(5)	(6)
1	Operated Gas Leaseholds	2	3	$ 831,066.68	$-482,731.54	$ 348,335.14
2	Unoperated Gas Leaseholds	8	-	158,228.70	-	158,228.70
3	Other Operated Leaseholds	12	12	7,405.00	2,087.92	9,492.92
4	Gas Wells	13	14	702,140.88	435,944.64	1,138,085.52
5	Other Wells	20	-	56,775.48	-	56,775.48
6	Meter Settings at Wells	21	-	4,009.59	-	4,009.59
7	Total			$1,759,626.33	$ -44,698.98	$1,714,927.35
8	Delay Rentals	-	-	-	488,018.45	488,018.45
9	General and Administrative Costs	-	-	-	68,597.09	68,597.09
10	Interest Cost	-	-	-	34,298.55	34,298.55
11	Total Cost			$1,759,626.33	$ 546,215.11	$2,305,841.44

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Operated Gas Leaseholds

Item No.	Lease No. Mountain States	Lease No. Canadian River	Lessor	Acquired by Amarillo Oil Company from Various Vendors by Assignment From April 1917 to January 15, 1923 Acres	Various Vendors Amount	Mission Oil Company As of Jan. 16, 1923 Acres	Mission Oil Company Amount	Mountain States Gas Company As of August 1, 1924 (E) Acres	Mountain States Gas Company Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Book Costs of Amarillo Oil Company								
1	-	53	Lee Bivins C and D	13,325.70	$2,886.08	-	$160,561.68	-	-
2	-	54	R. B. Masterson C	9,440.00		-		-	-
3	-	55	R. B. Masterson D	5,333.10		-		-	-
4	-	56	R. B. Masterson E	1,440.00	1,358.16	-	261,364.36	-	-
5	-	58	R. B. Masterson B	17,264.20		-		-	
6			Total Included in Reclassification as of January 15, 1923	46,803.00	$4,244.24	-	$421,926.04	-	-
7	1055	11	Fuqua Land and Cattle Company	-	-	-	-	1,280.00 (A)	$ 746.15
8	1062	18	Lee Bivins B	-	-	-	-	2,240.00	4,753.77
9	1070	25	W. H. Bush	-	-	-	-	9,000.00 (A)	5,315.88
10	1071	26	R. B. Masterson H	-	-	-	-	1,122.00	36,816.92
11	1075	30	Lee Bivins A	-	-	-	-	200,000.00	105,037.46
12	1076	31	R. B. Masterson A	-	-	-	-	29,455.11	65,178.13
13	1077	32	R. B. Masterson I	-	-	-	-	160.00	42,668.27
14	1088	43	R. B. Masterson F	-	-	-	-	262.77	3,853.08
15	1089	44	R. B. Masterson G	-	-	-	-	594.70	8,725.22
16	-	67	Terry Thompson one-half Interest	-	-	-	-	-	-
17			Total	46,803.00 (D)	$4,244.24		$421,926.04	244,114.58	$273,094.88
18			Difference between cost per Mountain States Gas Company and as booked by Amarillo Oil Company						1.00 $273,095.88
19			Total as per Books						

Notes:
(A) Fuqua and Bush leases acquired as unoperated.
(B) Settlement of law suit - Ranch Creek Oil Company.
(C) Booked as 3,920 acres - one-half interest of 1,960 acres correct.
(D) Acreage difference of 89.45 acres between old Amarillo record and new record at January 16, 1923 after Mission Oil acquisition.
(E) See Statement No. 6 attached for division of cost between Mountain States Gas Company and its predecessor company, the Producers and Refiners Corporation.

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Operated Gas Leaseholds

	Acquired by Amarillo Oil Company from									
	Various Vendors by Assignment From April 1917 to January 15, 1923		Mission Oil Company As of Jan. 16, 1923		Mountain States Gas Company As of August 1, 1924 (E)		Various Lessors January 16, 1923 to May 1, 1927		Total Book Cost Amarillo Oil Company	
	Acres	Amount	Acres	Amount	Acres	Amount	Acres	Amount	Acres	Amount
	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	13,325.70	$2,886.08	-	$160,561.68	-	-	-	-	13,325.70	$163,447.76
	9,440.00	(	-	(	-	-	-	-	9,440.00	(
	5,333.10	(	-	(	-	-	-	-	5,333.10	(
	1,440.00	(1,358.16	-	(261,364.36	-	-	-	-	1,440.00	(262,722.52
	17,264.20	(	-	(	-	-	-	-	17,264.20	(
	46,803.00	$4,244.24	-	$421,926.04	-	-	-	-	46,803.00	$426,170.28
	-	-	-	-	1,280.00 (A)	$ 746.15	960 (A)	$ 4,800.00	2,240.00	5,546.15
	-	-	-	-	2,240.00	4,753.77	-	-	2,240.00	4,753.77
	-	-	-	-	9,000.00 (A)	5,315.88	-	-	9,000.00	5,315.88
	-	-	-	-	1,122.00	36,816.92	1,078	106,462.18 (B)	2,200.00	143,279.10
	-	-	-	-	200,000.00	105,037.46	-	-	200,000.00	105,037.46
	-	-	-	-	29,455.11	65,178.13	-	-	29,455.11	65,178.13
	-	-	-	-	160.00	42,668.27	-	-	160.00	42,668.27
	-	-	-	-	262.77	3,853.08	-	-	262.77	3,853.08
	-	-	-	-	594.70	8,725.22	-	-	594.70	8,725.22
t	-	-	-	-	-	-	1,960 (C)	20,538.34	1,960.00	20,538.34
	46,803.00 (D)	$4,244.24		$421,926.04	244,114.58	$273,094.88	3,998	$131,800.52	294,915.58	$831,065.68
in States Gas Company						1.00				
pany						$273,095.88				1.00 (E)
										$831,066.68

otes: (A) Fuqua and Bush leases acquired as unoperated.
(B) Settlement of law suit - Ranch Creek Oil Company.
(C) Booked as 3,920 acres - one-half interest of 1,960 acres correct.
(D) Acreage difference of 89.45 acres between old Amarillo record and new record at January 16, 1923 after Mission Oil acquisition.
(E) See Statement No. 6 attached for division of cost between Mountain States Gas Company and its predecessor company, the Producers and Refiners Corporation.

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Operated Gas Leaseholds and Cost to Predecessor Companies

Description	Acquired by Amarillo Oil Company from: Various Vendors by Assignment From April, 1917 to January 15, 1923		Mission Oil Co. As of January 16, 1923		Mountain States Gas Co. As of August 1, 1924	
	Acres	Amount	Acres	Amount	Acres	Amount
(2)	(3)	(4)	(5)	(6)	(7)	(8)
Adjustments to Book Costs shown on Statement No. 2						
Eliminate Recorded Cost and Substitute Cost as Per Statement No. 4	-	$-4,244.24	-	-	-	-
Bivins C & D Leases	-	2,248.01	-	-	-	-
Masterson B & C Leases	-	12,319.17	-	-	-	-
Masterson D Lease	-	1,743.79	-	-	-	-
Masterson E Lease	-	313.91	-	-	-	-
Eliminate Recorded Cost and	-	-	-	$-421,926.04	-	-
Substitute Cost A.R. Jones, et al, assigned to Mission Oil Company, Per Statement No. 5	-	-	-	3,131.86	-	-
Adjustment of Mountain States Gas Co. Leases - Lease No. 1071	-	-	-	-	-	$ -33,878.00
Lease No. 1077, as Per Statement No. 7	-	-	-	-		-42,440.00
Net Adjustment	-	$12,380.64	-	$-418,794.18	-	$ -76,318.00
Cost of Operated Gas Leaseholds to Predecessor Companies	46,803.00	$16,624.88	-	$ 3,131.86	244,114.58	$ 196,777.88

Statement No. 3 Exhibit No. 1[illegible]

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Operated Gas Leaseholds and Cost to Predecessor Companies

Acquired by Amarillo Oil Company from									
Various Vendors by Assignment From April, 1917 to January 15, 1923		Mission Oil Co. As of January 16, 1923		Mountain States Gas Co. As of August 1, 1924		Various Lessors January 16, 1923 to May 1, 1927		Total Book Cost Amarillo Oil Co.	
Acres	Amount	Acres	Amount	Acres	Amount	Acres	Amount	Acres	Amount
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
-	$-4,244.24	-	-	-	-	-	-	-	$ -4,244.24
-	2,248.01	-	-	-	-	-	-	-	2,248.01
-	12,319.17	-	-	-	-	-	-	-	12,319.17
-	1,743.79	-	-	-	-	-	-	-	1,743.79
-	313.91	-	-	-	-	-	-	-	313.91
-	-	-	$-421,926.04	-	-	-	-	-	-421,926.04
-	-	-	3,131.86	-	-	-	-	-	3,131.86
-	-	-	-	-	$ -33,878.00	-	-	-	-33,878.00
-	-	-	-		-42,440.00	-	-	-	-42,440.00
-	$12,380.64	-	$-418,794.18	-	$ -76,318.00	-	-	-	$-482,731.54
46,803.00	$16,624.88	-	$ 3,131.86	244,114.58	$ 196,777.88	3,998.00	$131,800.52	294,915.58	$ 348,335.14

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Operated Gas Leaseholds Acquired by
Amarillo Oil Company from Various Vendors April, 1917 to January 15, 1923

			Lease Designation and Acreage						
Date (2)	Description (3)		Bivins C & D (4)	Masterson B & C (5)	Ozier (6)	Ingerton (7)	Merchant (8)	Warrick (Oil & Gas) (9)	Masterson D (10)
1917									
April	Acquired at time of organization of Amarillo Oil Company from M. C. Nobles, H. F. Sullenberger, F. J. Storms, J. M. Neely and M. W. Cunningham in full payment for capital stock subscriptions		23;301.70	31,458.50	9,920	1,280	3,200	2,400	-
June	Acquired from R. B. Masterson		-	-	-	-	-	-	5,481.60
Dec.	Balance	Acres	23,301.70	31,458.50	9,920	1,280	3,200	2,400	5,481.60
1918									
Jan.	Acquired from R. B. Masterson		-	-	-	-	-	-	-
	Miscellaneous cash expenditures for recording, legal, abstracts, etc.		-	-	-	-	-	-	-
	Delay rentals paid to R. B. Masterson 9-1/2 sections		-	-	-	-	-	-	-
Aug.	Assignment to Hapgood Company 2-3/4 sections		-	-1,760.00	-	-	-	-	-
	Assignment to Hapgood Company 1/2 section		-	-320.00	-	-	-	-	-
	Assignment to P. A. Little		-	-160.00	-	-	-	-	-
Dec.	Balance	Acres	23,301.70	29,218.50	9,920	1,280	3,200	2,400	5,481.60
1919									
	Miscellaneous cash expenditures for recording, legal, abstracts, etc.		-	-	-	-	-	-	-
	Delay rental paid to R. B. Masterson on 9-1/2 sections and 16,213 acres		-	-	-	-	-	-	-
Dec.	Balance	Acres	23,301.70	29,218.50	9,920	1,280	3,200	2,400	5,481.60
1920									
	Miscellaneous cash expenditures for recording, legal abstracts, etc.		-	-	-	-	-	-	-
	Delay rental - J. C. Warrick one-half		-	-	-	-	-	-	-
	Acreage surrendered		-7,040.00	-	-	-	-	-	-
	Acreage substituted		1,280.00	-	-	-	-	-	-
	Acreage released or otherwise disposed of (A)		-4,216.00	-2,573.35	-9,920	-1,280	-3,200	-	-
Dec.	Balance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60
1921									
	Delay rentals J. C. Warrick one half		-	-	-	-	-	-	-
	Legal fees - Ranch Creek leases - Masterson		-	-	-	-	-	-	-
Dec.	Balance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60
1922									
	Delay rentals J. C. Warrick one half		-	-	-	-	-	-	-
	Miscellaneous recording fees		-	-	-	-	-	-	-
	Legal fees, Ranch Creek leases - Masterson		-	-	-	-	-	-	-
Dec.	Balance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60
1923									
	Total Leaseholds at January 15		13,325.70	26,645.15	-	-	-	2,400	5,481.60
	Cost of Leaseholds at January 15								
	Total Operated Gas Leaseholds		$2,248.01	$12,319.17	-	-	-	-	$1,743.79
	Total Oil and Gas Leaseholds		-	-	-	-	-	$2,087.92	-

Note: (A) Obtained by substraction - Refer to Text.

Exhibit No. 194

Statement No. 4

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Operated Gas Leaseholds Acquired by
Amarillo Oil Company from Various Vendors April, 1917 to January 15, 1923

Description (3)		Bivins C & D (4)	Masterson B & C (5)	Ozier (6)	Ingerton (7)	Merchant (8)	Warrick (Oil & Gas) (9)	Masterson D (10)	Masterson E (11)	Total (12)	Amount (13)
		Lease Designation and Acreage									
anization of Amarillo Oil Company from M. C. Nobles,											
. J. Storms, J. M. Neely and M. W. Cunningham in full											
tock subscriptions		23,301.70	31,458.50	9,920	1,280	3,200	2,400	-	-	71,560.20)	$ 7,742.72
terson		-	-	-	-	-	-	5,481.60	-	5,481.60)	
nce	Acres	23,301.70	31,458.50	9,920	1,280	3,200	2,400	5,481.60	-	77,041.80	$ 7,742.72
sterson		-	-	-	-	-	-	-	1,440.00	1,440.00	-
nditures for recording, legal, abstracts, etc.		-	-	-	-	-	-	-	-	-	1,429.85
R. B. Masterson 9-1/2 sections		-	-	-	-	-	-	-	-	-	1,520.00
Company 2-3/4 sections		-	-1,760.00	-	-	-	-	-	-	-1,760.00)	
Company 1/2 section		-	-320.00	-	-	-	-	-	-	-320.00)	-374.24
ttle		-	-160.00	-	-	-	-	-	-	-160.00)	
ance	Acres	23,301.70	29,218.50	9,920	1,280	3,200	2,400	5,481.60	1,440.00	76,241.80	$10,318.33
enditures for recording, legal, abstracts, etc.		-	-	-	-	-	-	-	-	-	272.88
. B. Masterson on 9-1/2 sections and 16,213 acres		-	-	-	-	-	-	-	-	-	2,786.62
ance	Acres	23,301.70	29,218.50	9,920	1,280	3,200	2,400	5,481.60	1,440.00	76,241.80	$13,377.83
enditures for recording, legal abstracts, etc.		-	-	-	-	-	-	-	-	-	322.59
arrick one-half		-	-	-	-	-	-	-	-	-	600.00
		-7,040.00	-	-	-	-	-	-	-	-7,040.00	-
		1,280.00	-	-	-	-	-	-	-	1,280.00	-
herwise disposed of (A)		-4,216.00	-2,573.35	-9,920	-1,280	-3,200	-	-	-	-21,189.35	-3,231.12
ance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60	1,440.00	49,292.45	$11,069.30
rrick one half		-	-	-	-	-		-	-	-	600.00
ek leases - Masterson		-	-	-	-	-	-	-	-	-	600.00
ance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60	1,440.00	49,292.45	$12,269.30
rrick one half		-	-	-	-	-	-	-	-	-	600.00
g fees		-	-	-	-	-	-	-	-	-	7.50
k leases - Masterson		-	-	-	-	-	-	-	-	-	5,836.00
lance	Acres	13,325.70	26,645.15	-	-	-	2,400	5,481.60	1,440.00	49,292.45	$18,712.80
anuary 15		13,325.70	26,645.15	-	-	-	2,400	5,481.60	1,440.00	49,292.45	$18,712.80
anuary 15											
aseholds		$2,248.01	$12,319.17	-	-	-	-	$1,743.79	$313.91	-	$16,624.68
seholds		-	-	-	-	-	$2,087.92	-	-	-	$2,087.92

Note: (A) Obtained by substraction - Refer to Text.

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustment to Operated Gas Leaseholds Acquired by
Amarillo Oil Company from Mission Oil Company
as of January 16, 1923

Year		Amount	Totals By Accounts
(2)		(4)	(5)
	Expenditures by A. R. Jones et al., from November 1918 to May 1, 1922		
	Well Drilling		
	Rigs, Casing, Line Pipes, Pumps, Tanks, Automatic and Miscellaneous Equipment	$ 97,596.62	
	Drilling, Labor, Teaming, Trucking and Camp Expense	186,778.76	
	Purchase of one-fourth interest Masterson No. 1	9,500.00	
	Insurance, Taxes, Injuries	1,987.78	
	Other Miscellaneous Expenses	1,779.96	
	Total applicable to Gas Wells but not segregated by Lease or Well		$297,643.12
	Leaseholds		
1919	One-half Renewal "Bivins"	$ 10.00	
	One-half Delay Rentals on 9-1/2 Sections "Masterson"	760.00	
	One-half Delay Rentals on 16,213 Acres "Masterson"	2,026.63	
	One-half Recording Fees	27.12	
	One-half Recording Fees "Warrick"	3.00	
	One-half Delay Rentals "Warrick"	600.00	
1920	One-half Delay Rentals "Masterson"	222.94	
	One-half Delay Rentals "Warrick"	600.00	
	One-half Recording Fees	85.17	
1922	One-half Delay Rentals "Warrick"	600.00	
	Total applicable to	$ 4,934.86	
	Leaseholds - Gas		3,131.86
	Leaseholds - Gas and Oil		1,803.00
	Total, Excluding Legal, Interest and General		$302,577.98

Exhibit No. 194

Statement No. 6

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Operated Gas Leaseholds Acquired by Amarillo Oil Company from Mountain States Gas Company as of August 1, 1924 28

Lease Nos. Mountain States	Lease Nos. Canadian River	Lessor	Mountain States Gas Company Book Costs: Purchased from Producers and Refiners Corporation: Approximate Acreage	Mountain States Gas Company Book Costs: Purchased from Producers and Refiners Corporation: Amount	Mountain States Gas Company Book Costs: Additional Expenditures	Mountain States Gas Company Book Costs: Total Book Cost	Amarillo Oil Co. Book Cost
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1062	18	Lee Bivins	2,240.00	$ 2,450.47	$ 2,303.30	$ 4,753.77	$ 4,765.77
1071	26	R. B. Masterson	1,122.00	35,191.68	1,625.24	36,816.92	36,791.92
1075	30	Lee Bivins	200,000.00	51,019.62	54,017.84	105,037.46	105,091.71
1076	31	R. B. Masterson	29,455.11	31,667.02	33,511.11	65,178.13	65,148.13
1077	32	R. B. Masterson, et. al.	160.00	42,612.02	56.25	42,668.27	42,658.02
1088	43	R. B. Masterson	262.77	3,778.63	74.45	3,853.08	3,936.06
1089	44	R. B. Masterson	594.70	8,551.79	173.43	8,725.22	8,642.24
			233,834.58	$175,271.23	$91,761.62	$267,032.85	$267,033.85
		Leases acquired as Unoperated transferred to Operated					
1055	11	Fuqua Land & Cattle Company	1,280.00	106.15	640.00	746.15	746.15
1070	25	W. H. Bush	9,000.00	685.88	4,630.00	5,315.88	5,315.88
Total			244,114.58	$176,063.26	$97,031.62	$273,094.88	$273,095.88

Statement No. 7

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustment to Operated Gas Leaseholds Acquired by
Amarillo Oil Company from Mountain States Gas Company
as of August 1, 1924

Line No.	Description	Lease Designation: No. 1071 (Masterson)	Lease Designation: No. 1077 (Masterson et al)	Total
(1)	(2)	(3)	(4)	(5)
	Purchase Price By			
	Producers & Refiners Corp. for Lease and Well Charged to Lease Investment	$35,000.00	$42,600.00	
	Additional Charges:			
	Rentals	$ 65.70	$40.00	
	Miscellaneous	41.75	16.25	
	Prorated Expense	84.23	12.02	
	Rentals	1,122.00	-	
	Legal	503.24	-	
	Total Additional Charges	$1,816.92	$68.27	
	Total	$36,816.92	$42,668.27	$79,485.19
	Assumed Lease Portion			
	Initial Purchase Price at $1.00 per acre	$1,122.00	$160.00	
	Additional Charges	1,816.92	68.27	
	Total Lease Portion	$2,938.92	$228.27	3,167.19
	Total Well Portion	$33,878.00	$42,440.00	$76,318.00

Exhibit No. 194

Statement No. 8

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Leaseholds

Item No.		Acres	Book Cost	Adjustments	Cost
(1)		(3)	(4)	(5)	(6)
	Acquired by Amarillo Oil Company from:				
	Various Vendors				
1	April 15, 1917 to January 15, 1923 (Statement No. 9)	-	-	-	-
2	Mission Oil Company				
	January 16, 1923	-	-	-	-
3	Mountain States Gas Company				
	August 1, 1924 (Statement No. 10)	30,234.95	$123,009.70	-	$123,009.70
4	Various Lessors				
	January 16, 1923 to May 31, 1928 (Statement No. 11)	3,841.47	35,219.00	-	35,219.00
5	Total Unoperated Leaseholds	34,076.42	$158,228.70	-	$158,228.70

Exhibit No. 194

Statement No. 9

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

[Un]operated Gas Leaseholds Acquired by Amarillo Oil Company
from Various Vendors, April 15, 1917 to January 15, 1923

Item No.	Canadian River Lease No.	Lessor	Approximate Acreage	Book Cost to Amarillo Oil Company
(1)	(2)	(3)	(4)	(5)
1	57	Warrick	2,400	$ 901.50
2		Half Interest Acquired From Mission Oil Company as of January 16, 1923		901.50
				$1,803.00
3		Transferred to Oil Department		1,803.00
4		Balance		-

Exhibit No. 194

Statement No. 10
Sheet 1 of 3

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leaseholds Acquired by Amarillo Oil Company
From Mountain States Gas Company, August 1, 1924

Item No.	Lease No. Mountain States	Lease No. Canadian River	Lessor	Mountain States Gas Company Book Cost: Acquired from Producers & Refiners Corporation: Approximate Acreage	Acquired from Producers & Refiners Corporation: Book Cost	Additional Expenditures	Total Book Cost	Amarillo Oil Co. Book Costs
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	1045	1	A. Blessenbach et ux	160.00	$ 1,213.22	$ 160.75	$ 1,373.97	$ 1,373.97
2	1046	2	J. T. Sneed, jr. et ux	640.00	3,251.26	654.50	3,905.76	3,905.76
3	1047	3	Lee Bivins	40.00	1,054.00	40.00	1,094.00	1,094.00
4	1048	4	R. B. Masterson	100.00	1,332.36	-	1,332.36	1,332.36
5	1049	5	R. B. Masterson	80.00	1,065.89	2.00	1,067.89	1,067.89
6	1050	6	J. T. Sneed, jr. et ux	5,440.00	5,853.93	5,440.00	11,293.93	11,293.93
7	1051	7	R. B. Masterson	160.00	2,131.79	160.00	2,291.79	2,291.79
8	1052	8	Lee Bivins	20.00	789.90	21.50	811.40	811.40
9	1053	9	D. P. Seay	540.00	3,283.80	542.00	3,825.80	3,825.80
10	1054	10	R. B. Masterson	80.00	2,006.01	-2,000.00	6.01	6.01
11	1055	11	Fuqua Land and Cattle Company	1,280.00	106.15	640.00	746.15	746.15
12	1056	12	R. B. Masterson	40.00	403.00	80.00	483.00	483.00
13	1057	13	J. T. Sneed, jr.	160.00	1,612.02	331.50	1,943.52	1,943.52
14	1058	14	R. B. Masterson	40.00	403.00	80.00	483.00	483.00
15	1059	15	T. L. McBride et ux	40.00	403.00	80.00	483.00	483.00
16	1060	16	R. B. Masterson	40.00	443.00	40.00	483.00	483.00
17	1061	17	Lee Bivins	40.00	403.00	80.00	483.00	483.00
18	1063	19	M. E. Miller et ux	212.50	1,078.42	2.00	1,080.42	1,080.42
19	1064	20	Lee Bivins	160.00	4,016.02	166.25	4,182.27	4,182.27
20	1065	-	C. L. Kilgore	Lease Contract	1,001.00	-	1,001.00	1,001.00
21	1066	21	Terry Thompson	7,603.80	8,182.45	7,603.80	15,786.25	15,786.25
22	1067	22	Lee Bivins	6,749.30	7,256.14	133.17	7,389.31	7,389.31
23	1068	23	E. Crawford et al	1,440.00	7,310.54	1,440.00	8,750.54	8,750.54
24	1069	24	J. M. Crawford	480.00	2,438.45	486.50	2,924.95	2,924.95
25	1070	25	W. H. Bush	9,000.00	685.88	4,630.00	5,315.88	5,315.88
26	1072	27	W. H. Ingerton et ux	2,000.00	10,152.20	2,004.75	12,156.95	12,156.95
27	1073	28	R. B. Masterson	160.00	2,012.02	40.00	2,052.02	2,052.02
28	1074	29	T. S. Poling	80.00	1,107.11	88.00	1,195.11	1,195.11
29	1078	33	Lee Bivins	20.00	201.50	20.00	221.50	221.50
30	1079	34	J. M. Crawford	175.80	893.12	-	893.12	893.12
31	1080	35	C. J. Hansen et al	160.00	-	332.00	332.00	332.00
32	1081	36	Anthony Walters	320.00	-	669.67	669.67	669.67
33	1082	37	R. B. Masterson	159.88	2,298.89	87.67	2,386.56	2,386.56
34	1083	38	R. B. Masterson	482.05	6,931.03	120.52	7,051.55	7,051.55

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leaseholds Acquired by Amarillo Oil Company
From Mountain States Gas Company, August 1, 1924

Lease No.			Mountain States Gas Company Book		
			Acquired from Producers & Refiners Corporation		
Mountain States	Canadian River	Lessor	Approximate Acreage	Book Cost	Additional Expenditures
(2)	(3)	(4)	(5)	(6)	(7)
1084	39	R. B. Masterson	324.90	$ 4,671.49	$ 81.23
1085	40	R. B. Masterson	280.00	4,025.90	70.00
1086	41	R. B. Masterson	320.00	4,601.04	91.58
1087	42	R. B. Masterson	201.75	2,900.80	30.44
1090	45	R. B. Masterson	320.00	4,601.04	103.17
1091	46	R. B. Masterson	200.00	2,875.65	50.00
1092	47	O. H. Cooper et ux	212.50	-	1,062.50
1490	48	E. E. Masterson et ux	679.80	-	687.80
1491	49	R. B. Masterson	80.00	-	1,604.70
1492	50	R. B. Masterson	120.00	1,209.01	151.50
1493	51	R. B. Masterson	120.00	-	2,415.55
1494	52	R. B. Masterson	40.00	-	832.35
		Total	41,002.28	$106,205.03	$31,357.40
1081	36	Anthony Walters - change in acreage (resurvey)	12.67	-	-
		Total Acreage Acquired	41,014.95	$106,205.03	$31,357.40

Exhibit No. 194

Statement No. 10
Sheet 2 of 3

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leaseholds Acquired by Amarillo Oil Company
From Mountain States Gas Company, August 1, 1924

	Mountain States Gas Company Book Cost				
	Acquired from Producers & Refiners Corporation				
Lessor	Approximate Acreage	Book Cost	Additional Expenditures	Total Book Cost	Amarillo Oil Co. Book Costs
(4)	(5)	(6)	(7)	(8)	(9)
R. B. Masterson	324.90	$ 4,671.49	$ 81.23	$ 4,752.72	$ 4,752.72
R. B. Masterson	280.00	4,025.90	70.00	4,095.90	4,095.90
R. B. Masterson	320.00	4,601.04	91.58	4,692.62	4,692.62
R. B. Masterson	201.75	2,900.80	30.44	2,931.24	2,931.24
R. B. Masterson	320.00	4,601.04	103.17	4,704.21	4,704.21
R. B. Masterson	200.00	2,875.65	50.00	2,925.65	2,925.65
O. H. Cooper et ux	212.50	-	1,062.50	1,062.50	1,062.50
E. E. Masterson et ux	679.80	-	687.80	687.80	687.80
R. B. Masterson	80.00	-	1,604.70	1,604.70	1,604.70
R. B. Masterson	120.00	1,209.01	151.50	1,360.51	1,360.51
R. B. Masterson	120.00	-	2,415.55	2,415.55	2,415.55
R. B. Masterson	40.00	-	832.35	832.35	832.35
Total	41,002.28	$106,205.03	$31,357.40	$137,562.43	$137,562.43
Anthony Walters - change in acreage (resurvey)	12.67	-	-	-	-
Total Acreage Acquired	41,014.95	$106,205.03	$31,357.40	$137,562.43	$137,562.43

Canadian River Gas Company

Cost to Predecessor Companies of Property Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leaseholds Acquired by Amarillo Oil Company From Mountain States Gas Company, August 1, 1924

Item No.	Lease No. Mountain States	Lease No. Canadian River	Lessor	Mountain States Gas Company Book Cost: Acquired from Producers & Refiners Corporation: Approximate Acreage	Acquired from Producers & Refiners Corporation: Book Cost	Additional Expenditures	Total Book Cost
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Less Cancellations				
0	1047	3	Lee Bivins	40.00	$ 1,054.00	$ 40.00	$ 1,094.00
1	1052	8	Lee Bivins	20.00	789.90	21.50	811.40
2	1059	15	T. L. McBride et ux	40.00	403.00	80.00	483.00
3	1065	-	C. L. Kilgore	Lease Contract	1,001.00	-	1,001.00
4			Total Cancellations	100.00	$ 3,247.90	$ 141.50	$ 3,389.40
			Less Exchanges				
5	1051	7	R. B. Masterson (A)	160.00	$ 2,131.79	$ 160.00	$ 2,291.79
6	1056	12	R. B. Masterson (A)	40.00	403.00	80.00	483.00
7	1058	14	R. B. Masterson (A)	40.00	403.00	80.00	483.00
8	1060	16	R. B. Masterson (A)	40.00	443.00	40.00	483.00
9	1492	50	R. B. Masterson (A)	120.00	1,209.01	151.50	1,360.51
0			Total Exchanged	400.00	$ 4,589.80	$ 511.50	$ 5,101.30
			Less Transfers to Operated				
1	1055	11	Fuqua Land and Cattle Company	1,280.00	$ 106.15	$ 640.00	$ 746.15
2	1070	25	W. H. Bush	9,000.00	685.88	4,630.00	5,315.88
3			Total Transfers to Operated	10,280.00	$ 792.03	$5,270.00	$ 6,062.03
4			Reductions from Totals on Page 2	10,780.00	8,629.73	5,923.00	14,552.73
5			Total Acquired by Canadian River Gas Company	30,234.95	$97,575.30	$25,434.40	$123,009.70

Note: (A) These five leases plus 500 Acre Tract exchanged for Masterson Lease No. 65

Exhibit No. 94

Statement No. 10
Sheet 3 of 3

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leaseholds Acquired by Amarillo Oil Company
From Mountain States Gas Company, August 1, 1924

Lease No. Canadian River	Lessor	Mountain States Gas Company Book Cost: Acquired from Producers & Refiners Corporation: Approximate Acreage	Book Cost	Additional Expenditures	Total Book Cost	Amarillo Oil Co. Book Costs	Eliminated Year
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Less Cancellations							
3	Lee Bivins	40.00	$ 1,054.00	$ 40.00	$ 1,094.00	$ 1,094.00	1925
8	Lee Bivins	20.00	789.90	21.50	811.40	811.40	1925
15	T. L. McBride et ux	40.00	403.00	80.00	483.00	483.00	1925
-	C. L. Kilgore	Lease Contract	1,001.00	-	1,001.00	1,001.00	1925
	Total Cancellations	100.00	$ 3,247.90	$ 141.50	$ 3,389.40	$ 3,389.40	
Less Exchanges							
7	R. B. Masterson (A)	160.00	$ 2,131.79	$ 160.00	$ 2,291.79	$ 2,291.79	1926
12	R. B. Masterson (A)	40.00	403.00	80.00	483.00	483.00	1926
14	R. B. Masterson (A)	40.00	403.00	80.00	483.00	483.00	1926
16	R. B. Masterson (A)	40.00	443.00	40.00	483.00	483.00	1926
50	R. B. Masterson (A)	120.00	1,209.01	151.50	1,360.51	1,360.51	1926
	Total Exchanged	400.00	$ 4,589.80	$ 511.50	$ 5,101.30	$ 5,101.30	
Less Transfers to Operated							
11	Fuqua Land and Cattle Company	1,280.00	$ 106.15	$ 640.00	$ 746.15	$ 746.15	1927
25	W. H. Bush	9,000.00	685.88	4,630.00	5,315.88	5,315.88	1925
	Total Transfers to Operated	10,280.00	$ 792.03	$5,270.00	$ 6,062.03	$ 6,062.03	
	Reductions from Totals on Page 2	10,780.00	8,629.73	5,923.00	14,552.73	14,552.73	
	Total Acquired by Canadian River Gas Company	30,234.95	$97,575.30	$25,434.40	$123,009.70	$123,009.70	

Note: (A) These five leases plus 500 Acre Tract exchanged for Masterson Lease No. 65

Exhibit No. 194

Statement No. 11

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Unoperated Gas Leasehold Acquired by Amarillo Oil Company from Various Lessors, January 16, 1923 to May 1, 1927

Item No.	Year	Canadian River Lease No.	Lessor	Approximate Acreage	Book Cost
(1)	(2)	(3)	(4)	(5)	(6)
1	1923	57	Warrick	-	$ 1,200.00
2	1924	57	Warrick	-	1,202.00
3	1925	60	Allison	100.00	1,150.00
4	1925		Masterson	160.00	160.00
5	1926	61	McBride	600.00	6,000.00
6	1926	62	Wright	328.43	3,280.00
7	1926	63	Baker	480.00	3,840.00
8	1926	64	Crawford	1,453.04	10,887.70
9	1926	65	Masterson (A)	560.00	5,261.30
10	1926	66	Gary and Davies	320.00	4,800.00
11	1926	11	Fuqua	960.00	4,800.00
12	1926	69	Kilgore (B)	18,835.20	141,264.00
13		Total Acquired by Amarillo Oil Company		23,796.67	$183,845.00
			Less Acreage Exchanged		
14	1925	-	Masterson	160.00	160.00
			Less Transferred to Oil Department		
15	1923	57	Warrick	-	1,200.00
16	1924	57	Warrick	-	1,202.00
17			Total	-	$ 2,402.00
			Less Transferred to Operated Leaseholds		
18	1926	11	Fuqua	960.00	4,800.00
			Less Acreage not Conveyed as of May 31, 1928		
19	1926	69	Kilgore (B)	18,835.20	141,264.00
20			Total Deductions	19,955.20	$148,626.00
21			Total Acquired by Canadian River Gas Company	3,841.47	35,219.00

Notes: (A) Received in Exchange for Lease Nos. 7, 12, 14, 16, 50 and 160 Acre Tract
(B) Gas Rights sold to Canadian River Gas Company after May 31, 1928: - but oil rights were retained by Amarillo Oil Company.

Exhibit No. 194

Statement No. 12

Canadian River Gas Company

Cost to Predecessor Companies of Property
cquired by Canadian River Gas Company as of May 1, 1927

Other Leaseholds

Canadian River Lease No.	Description	Lease	Acres	Amount
(2)	(3)	(4)	(5)	(6)
18	Payment to Lee Bivins 1926	Bivins	-	$3,200.00
57	Transfer from Unoperated Gas Leaseholds (Statement No. 9)	Warrick	2,400	1,803.00
57	Transfer from Unoperated Gas Leaseholds (Statement No. 11)	Warrick	-	2,402.00
	Total		2,400	$7,405.00

Adjustments to Recorded Cost

Canadian River Lease No.	Description	Lease	Acres	Amount
57	A.R. Jones and Associates One-Half interest in Rentals and Fees, Statement No. 5			$1,803.00
57	Cost of obtaining at 10.05¢ per acre. Being part of the original assignment to Amarillo Oil Company in April 1917, Statement No. 4			241.20
57	Proportion on acreage basis of miscellaneous legal, abstract, recording costs from April 1917 to January 15, 1923, Statement No. 4			43.72
	Total Additions			$2,087.92
	Cost to Predecessor Companies		2,400	$9,492.92

Statement No. 13

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Gas Wells

Item No.	Well No.	Lease	Amarillo Oil Company Acquisitions: Expenditures and Charges April, 1917 to January 15, 1923	Acquired from Mission Oil Co. January 16, 1923	Acquired from Mountain States Gas Co. August 1, 1924	Expenditures and Charges January 16, 1923 to May 1, 1927	Amarillo Oil Co. Total Book Cost April 1917, to May 1, 1927
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	C 1	Bivins	$ 13,855.43 (A)	$ 13,855.43 (A)	-	$ 27,819.39	$ 55,530.25
2	C 1	Masterson (Hapgood Well) (B)					
3	E 2	Masterson					
4	C 3	Masterson	26,035.01 (A)	26,035.01 (A)	-	234,209.34	286,279.36
5	D 4	Masterson					
6	B 5	Masterson					
7	A 1	Bivins	-	-	$ 75,331.44	-7,560.19	67,771.25
8	A 2	Bivins	-	-	73,412.49	-9,215.95	64,196.54
9	B 1	Bivins	-	-	56,377.50	-4,402.32	51,975.18
10	B 2	Bivins	-	-	9,817.09	49,437.11	59,254.20
11	A 2	Masterson	-	-	49,205.91	-16,423.95	32,781.96
12	F 1	Masterson	-	-	79.16	37,654.16	37,733.32
13	G 2	Masterson	-	-	38,614.09	2,730.99	41,345.08
14	H 1	Masterson	-	-	441.21	35,746.13	36,187.34
15	I 1	Masterson	-	-	-49.43	36,602.00	36,552.57
16	1	Bush	-	-	-	55,113.65	55,113.65
17	1	Fuqua	-	-	-	51,358.28	51,358.28
18	1	Thompson One-half Interest	-	-	-	12,951.25	12,951.25
19	A 3	Bivins	-	-	-	30,470.09	30,470.09
20	A 4	Bivins	-	-	-	41,369.20	41,369.20
21	A 5	Bivins	-	-	-	36,402.85	36,402.85
22	B 4	Bivins	-	-	-	27,766.41	27,766.41
23	C 4	Bivins	-	-	-	37,603.58	37,603.58
24	D 3	Bivins	-	-	-	57,193.26	57,193.26
25	A 1	Masterson	-	-	-	72,870.98	72,870.98
26	L	Masterson (Fittings Only)	-	-	-	21.35	21.35
27		Total Book Cost of Wells	$ 39,890.44	$ 39,890.44	$303,229.46	$809,717.61	$1,192,727.95
28		Deduct Gas Department Adjustment Statement No. 15	-	-	-	490,587.07	490,587.07
29		Book Cost of Wells to Amarillo Oil Company	$ 39,890.44	$ 39,890.44	$303,229.46	$319,130.54	$ 702,140.88

Notes: (A) Represents only tangible equipment

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Gas Wells

em o.	Description	Expenditures and Charges April, 1917 to Jan. 15, 1923	Amarillo Oil Company Acquisitions: Acquired from Mission Oil Co. Jan. 16, 1923	Amarillo Oil Company Acquisitions: Acquired from Mountain States Gas Co. August 1, 1924
)	(2)	(3)	(4)	(5)
	Eliminate Recorded Cost and	$-39,890.44	-	-
	Substitute Actual Cost to Amarillo Oil Company, Statement No. 16	89,566.32	-	-
	Eliminate Recorded Cost and	-	$-39,890.44	-
	Substitute Cost of A.R. Jones, et al, Statement No. 17 and	-	297,643.12	-
	Substitute Cost of Mission Oil Company, Statement No. 18	-	42,705.91	-
	Add Mountain States Gas Company Well costs eliminated from Lease Costs - Contra (Statement No. 7)	-	-	$ 76,318.00
	Development Costs charged to Profit and Loss per Statement No. 19	-	-	-
	Net Adjustment to Book Cost shown on Statement No. 13.	$ 49,675.88	$300,458.59	$ 76,318.00
	Total Cost of Gas Wells Acquired by Canadian River Gas Company	$ 89,566.32	$340,349.03	$379,547.46

Statement No. 14

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Adjustments to Gas Wells

	Amarillo Oil Company Acquisitions				
scription	Expenditures and Charges April, 1917 to Jan. 15, 1923	Acquired from Mission Oil Co. Jan. 16, 1923	Acquired from Mountain States Gas Co. August 1, 1924	Expenditures and Charges Jan. 16, 1923 to May 1, 1927	Amarillo Oil Co. Total Book Cost May 1, 1927
(2)	(3)	(4)	(5)	(6)	(7)
ost and	$-39,890.44	-	-	-	$ -39,890.44
Cost to Amarillo ment No. 16	89,566.32	-	-	-	89,566.32
ost and A.R. Jones, et al,	-	$-39,890.44	-	-	-39,890.44
nd	-	297,643.12	-	-	297,643.12
Mission Oil No. 18	-	42,705.91	-	-	42,705.91
Gas Company Well costs Lease Costs - Contra	-	-	$ 76,318.00	-	76,318.00
harged to Profit and Loss 19	-	-	-	$ 9,492.17	9,492.17
Book Cost shown on Statement	$ 49,675.88	$300,458.59	$ 76,318.00	$ 9,492.17	$ 435,944.64
as Wells Acquired by r Gas Company	$ 89,566.32	$340,349.03	$379,547.46	$328,622.71	$1,138,085.52

Exhibit No. 194

Statement No. 15

Canadian River Gas Company

Cost to Predecessor Companies of Property Acquired by Canadian River Gas Company as of May 1, 1927

Gas Department Adjustment

Item No.	Well No.	Lease	Drilling	Labor Teaming & Freight	Total Credits	Charges	Book Credit Balance (A)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Development Costs Restored as of September 30, 1925					
1	1	Bush	$ 34,548.44	$ 6,218.06	$ 40,766.50	$ 40,993.17	$ -226.67
2	3	Bivins A	17,135.58	5,286.33	22,421.91	24,075.89	-1,653.98
3	2	Bivins B	32,584.72	8,435.36	41,020.08	41,042.75	-22.67
4	1	Bivins C	63,000.00	9,000.00	72,000.00	-	(72,000.00
5	4	Bivins C	6,937.58	1,871.46	8,809.04	-	(8,809.04
6	3	Bivins D	45,000.00	4,166.50	49,166.50	-	49,166.50
7	1	Masterson A	19,620.79	13,414.83	33,035.62	33,494.10	-458.48
8	5	Masterson B	45,000.00	5,000.00	50,000.00	-	50,000.00
9	1	Masterson C	85,000.00	10,000.00	95,000.00	-	(95,000.00
10	3	Masterson C	5,109.56	113.45	5,223.01	-	(5,223.01
11	4	Masterson D	45,000.00	5,000.00	50,000.00	-	50,000.00
12	2	Masterson E	45,000.00	5,000.00	50,000.00	-	50,000.00
13	1	Masterson F	37,000.00	3,000.00	40,000.00	-	40,000.00
14	1	Masterson H	35,000.00	3,000.00	38,000.00	-	38,000.00
15	1	Masterson I	35,000.00	3,000.00	38,000.00	-	38,000.00
16	2	Bivins A	-	-	-	56.00	-56.00
17	1	Warrick	-	-	-	3,193.68	-3,193.68
18		Total	$550,936.67	$82,505.99	$633,442.66	$142,855.59	$490,587.07 (A)

Note: (A) Credit Balance: Contra Gas Well Account

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Expenditures by Amarillo Oil Company For Drilling Wells, April 1917 to January

Well Designation	1918	1919	1920	1921	1922
(2)	(3)	(4)	(5)	(6)	(7)
Masterson C 1 (Discovery Well)	$42,958.00	$-1,801.03	$-9,500.00 (A)	-	-
Bivins C 1 and C 2 (C)	-	353.88	33,287.92	-	-
Bivins C 2 (Below Contract Depth)	-	-	8,325.27	-	-
Masterson D 3 and Bivins D 3	-	-	-	-	$27,905.01
Less Payments to A. R. Jones et al., account drilling Bivins C 1 and C 2	-	-	-	-	
Farm Expenditures					
Bivins and Masterson Leases	-	-	2.56	$845.04	12,491.38
Total Drilling and Farm Expenditures	$42,958.00	$-1,447.15	$32,115.75	$845.04	$40,396.39
Tax Expenditures	-	-	-	-	-
Total	-	-	-	-	-

(A) One-fourth Interest sold to A. R. Jones et included in A. R. Jones et al., Cost
(B) Full drilling cost included in A. R. Jones No deductions for cash payments by Amari to Jones et al., (Statement No. 17).
(C) Bivins C 2. Dry hole.
(D) To January 15

Statement No. 16

Exhibit No. 194

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

by Amarillo Oil Company For Drilling Wells, April 1917 to January 15, 1923

	1918	1919	1920	1921	1922	1923 (C)	Book Cost
	(3)	(4)	(5)	(6)	(7)	(8)	
	$42,958.00	$-1,801.03	$-9,500.00 (A)	-	-	-	$ 31,656.97
	-	353.88	33,287.92	-	-	-	33,641.80
1)	-	-	8,325.27	-	-	-	8,325.27
	-	-	-	-	$27,905.01	$3,416.10	31,321.11
l., C 2	-	-	-	-		-	-31,000.00 (B)
	-	-	2.56	$845.04	12,491.38	-	13,338.98
	$42,958.00	$-1,447.15	$32,115.75	$845.04	$40,396.39	$3,416.10	$ 87,284.13
	-	-	-	-	-	-	2,282.19
	-	-	-	-	-	-	$ 89,566.32

(A) One-fourth Interest sold to A. R. Jones et al., and included in A. R. Jones et al., Cost
(B) Full drilling cost included in A. R. Jones et al., cost. No deductions for cash payments by Amarillo Oil Company to Jones et al., (Statement No. 17).
(C) Bivins C 2. Dry hole.
(D) To January 15

Statement No. 17

Canadian River Gas Company

Cost to Predecessor Companies of Property Acquired by Canadian River Gas Company as of May 1, 1927

Cost of Drilling Wells Acquired by Amarillo Oil Company from Mission Oil Company as of August 1, 1924

Item No.	Description		Cost
(1)	(2)		(3)
	Gross Expenditures by A. R. Jones et al.		
1	For drilling wells under 1918 agreement, Contract Wells 2-3-4-5- on Masterson Leases. Joint account Wells 1-2 on Bivins Leases		$320,483.03
2	Purchase of One-fourth Interest in Masterson C-1 Well from Amarillo Oil Company		9,500.00
3	Settlement of H. C. Finley (Superintendent) Account		3,000.00
4	Gross Expenditures by A. R. Jones et al.		$332,983.03
	Less		
5	Inventory of materials as of July 1, 1922	$25,314.18	
6	Insurance Credits	235.80	
7	Pipe Purchase Credit	1,568.95	
8	Materials returned	441.62	
9	Total		27,560.55
10	Net Expenditures by A. R. Jones et al. applicable to 1918 agreement and transferred to Mission Oil Company under Agreement of May 1, 1922		305,422.48
	Less Leaseholds:		
11	Gas	3,131.86	
12	Gas and Oil	1,803.00	
	Less General Construction Cost:		
13	Interest	394.70	
14	Legal	2,400.00	
15	Office	49.80	
16	Total Deductions		7,779.36
17	Cost of Wells drilled by Mission Oil Company and acquired by Canadian River Gas Company		$297,643.12

Exhibit No. 194

Statement No. 18

Canadian River Gas Company

Cost to Predecessor Companies of Property
[Acq]uired by Canadian River Gas Company as of May 1, 1927

Expenditures for Well Drilling by
Mission Oil Company

[I]tem No.	Description	Cost
(1)	(2)	(3)
	Wells Drilled Jointly - Half Interest with Amarillo Oil Company	
	Well Drilling	
1	Masterson No. 3	$ 18,511.97
2	Bivins No. 3	15,607.88
3	Total	$ 34,119.85
	Farm Expenditures	
4	Bivins Lease	6,642.25
5	Masterson Lease	1,943.81
6	Total	$ 8,586.06 (A)
7	Total expenditures by Mission Oil Company from May 1, 1922 to January 16, 1923	$ 42,705.91

Note: (A) Includes $7,935.03 inventory of equipment acquired from A. R. Jones et al as of July 1, 1922

Exhibit No. 194

Statement No. 19

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Well Drilling Costs Charged to Profit and Loss

Item No.	Year	Well Designation	Well Drilling Costs: Labor, Teaming & Freight	Drilling	Miscel-laneous	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1923	Masterson No.3			$157.69	$ 157.69
2		Bivins No.3			197.13	197.13
3		Bivins No.4	$1,707.65	$6,858.50	571.20	9,137.35
4		Total	$1,707.65	$6,858.50	$926.02	$9,492.17

Exhibit No. 194

Statement No. 20

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Other Wells

Description	Amount
(2)	(3)
Expenditures and charges by Amarillo Oil Company from January 16, 1923 to May 1, 1927 written off to Surplus (A)	
Bivins No. B-3	$29,012.43
Warrick No. 1	27,763.05
Total	$56,775.48

Note: (A) The voucher closing out gas investment of the Amarillo Oil Company to Canadian River Gas Company recorded only tangible well equipment consisting of casing and closing in equipment. Drilling, labor, teaming and freight amounting to $39,798.51 were later written off to surplus.

Exhibit No. 194

Statement No. 21

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

Meter Settings at Wells

Item No.	Description	Amount
(1)	(2)	(3)
1	Expenditures and charges by Amarillo Oil Company from January 16, 1923 to May 1, 1927 (A)	$4,009.59
2	Total	$4,009.59

Note: (A) The transfer to Canadian River Gas Company did not indicate meter settings at wells as part of the gas investment of Amarillo Oil Company. These settings were included in pipe line investment and were later charged off to surplus although actually transferred to Canadian River Gas Company.

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

General and Administrative Costs of Predecessor Companies

Description	Amarillo Oil Co. April, 1917 to Jan. 15, 1923	A. R. Jones et al. Nov. 1918 to May 1, 1922	Mission Oil Co. May 1, 1922 to Jan. 15, 1923	Amarillo Oil Company 1923	1924	1925	1926	1927
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Per Books	$ 7,582.10	-	$12,051.47	$ 17,813.84	$ 21,934.07	$ 19,049.50	$ 24,710.24	$ 26,035.70
As Estimated	-	$ 14,271.99	-	-	-	-	-	-
Total General and Administrative Expenses	$ 7,582.10	$ 14,271.99	$12,051.47	$ 17,813.84	$ 21,934.07	$ 19,049.50	$ 24,710.24	$ 26,035.70
Operating Expenses								
Per Books	13,011.08	-	1,340.83	13,463.88	20,727.48	24,457.38	31,089.98	35,518.62
Rentals on Leases	-	-	-	-	65,820.93	157,085.23	148,796.95	135,606.23
Property Additions - Per Books	145,095.71	297,643.12	42,705.91	326,938.66	-10,312.08	77,145.08	522,922.14	355,021.83
Total Operating Expenses and Property Additions subject to General and Administrative Supervision:								
Amount	$158,106.79	$297,643.12	$44,046.74	$340,402.54	$ 76,236.33	$258,687.69	$702,809.07	$526,146.68
Per Cent	4.795%	4.795%	27.361%	5.233%	28.771%	7.364%	3.516%	4.948%

Note: (A) Excluding Mission Oil Company May 1, 1922 to January 15, and Amarillo Oil Company for year 1934

Exhibit No. 194

Statement No. 22

Canadian River Gas Company

Cost to Predecessor Companies of Property
Acquired by Canadian River Gas Company as of May 1, 1927

General and Administrative Costs of Predecessor Companies

A. R. Jones et al. Nov. 1918 to May 1, 1922	Mission Oil Co. May 1, 1922 to Jan. 15, 1923	Amarillo Oil Company					Producers & Refiners Corp. May 1, 1923 to Aug. 23, 1923	Mountain States Gas Co. Aug. 23, 1923 to Aug. 1, 1924		Total Excluding Periods of Lowest Construction (A)
		1923	1924	1925	1926	1927			Combined	
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
-	$12,051.47	$ 17,813.84	$ 21,934.07	$ 19,049.50	$ 24,710.24	$ 26,035.70	$ 20,518.61	-	$ 149,695.53	$ 115,709.99
$ 14,271.99	-	-	-	-	-	-	-	$ 5,991.54	20,263.53	20,263.53
$ 14,271.99	$12,051.47	$ 17,813.84	$ 21,934.07	$ 19,049.50	$ 24,710.24	$ 26,035.70	$ 20,518.61	$ 5,991.54	$ 169,959.06	$ 135,973.52
-	1,340.83	13,463.88	20,727.48	24,457.38	31,089.98	35,518.62	-	-	139,609.25	117,540.94
-	-	-	65,820.93	157,085.23	148,796.95	135,606.23	-	-	507,309.34	441,488.41
297,643.12	42,705.91	326,938.66	-10,312.08	77,145.08	522,922.14	355,021.83	564,187.11	164,602.81	2,485,950.29	2,453,556.46
$297,543.12 4.795%	$44,046.74 27.361%	$340,402.54 5.233%	$ 76,236.33 28.771%	$258,687.69 7.364%	$702,809.07 3.516%	$526,146.68 4.948%	$564,187.11 3.637%	$164,602.81 3.640%	$3,132,868.88 5.425%	$3,012,585.[illegible] 4.51[illegible]

Note: (A) Excluding Mission Oil Company May 1, 1922 to January 15, 1923
and Amarillo Oil Company for year 1934